

AR56

## BRIDGING THE DISTANCE



## letter of transmittal

Regina, Saskatchewan

March 31, 2004

To Her Honour  
The Honourable Lynda Haverstock  
Lieutenant Governor of the Province of Saskatchewan

Dear Lieutenant Governor:

I have the honour to submit herewith the annual report of SaskTel for the year ending December 31, 2003, including the financial statements, duly certified by auditors for the Corporation, and in the form approved by the Treasury Board, all in accordance with *The Saskatchewan Communications Holding Corporation Act*.

Respectfully submitted,

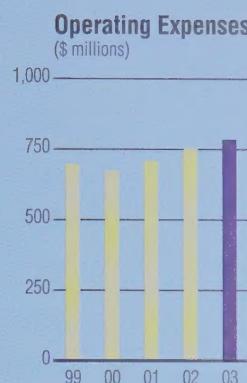
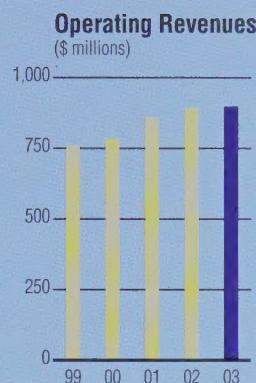
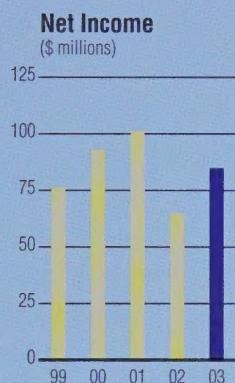


Honourable Maynard Sonntag  
Minister Responsible for SaskTel

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## financial highlights



**Net Income** for the year was \$85.1 million and cash from operating activities was \$255.2 million. During the year, SaskTel recorded a non-cash foreign currency translation gain of \$22.9 million and investment-related write downs totalling \$20.5 million. Income from operations was \$112.8 million or \$26.7 million lower than 2002.

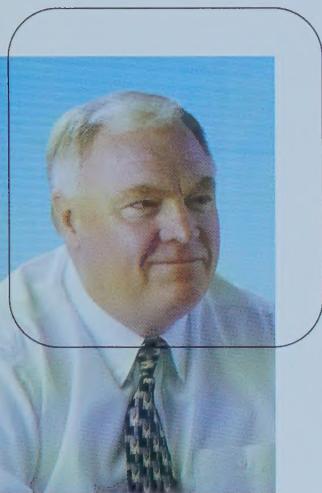
**Operating Revenues** increased in 2003 due to increased revenues from Navigata and SecurTek and increased cellular, internet and entertainment services revenues. These increases were partially offset by reductions in long distance and data revenues.

**Operating Expenses** were higher than the previous year. Increased spending on growth and diversification initiatives, salaries and benefits, and reduced pension income were only partially offset by reduced contribution and carrier costs, and cost savings of \$10 million in traditional business lines generated by the Operational Efficiency Program.

**Capital Expenditures** decreased to \$127.7 million in 2003. SaskTel continued to focus on growth and diversification initiatives, such as *Max™* Interactive Services, high speed internet, CommunityNet and digital cellular expansion.

SaskTel **Declared Dividends** of \$76.6 million in 2003.

## president's message



Distance and movement have always been a definitive part of life in Saskatchewan. Even before agricultural settlement, the people who lived here knew distance in their very bones. Traveling between winter camps and summer hunts, clans of indigenous people communicated with one another across the plains on pathways that we now trace with our highways and telecommunications. Speeding up the rate that messages and people move along those pathways has left its stamp on our culture, but the challenge of distance remains a defining characteristic.

Because SaskTel is in the business of bridging distances within this province and beyond, we are woven into the fabric of life in Saskatchewan. Our name itself expresses this commitment to embrace the distances that characterize our culture. The *tel* in SaskTel, in fact, has its roots in the Greek word for “at a distance.”

More importantly, the people who make this corporation go share with their customers this heritage of overcoming the gulf between town and farm, buyer and seller, home and away. We were raised among the same icons of distance – the school bus, the roads and utility lines leading from horizon to horizon, the open spaces and the sky itself. We know Saskatchewan as a place where it is not uncommon to travel 60 miles to have coffee with a friend, then turn around and head back home again; where the trip the local ball team makes casually every weekend would, in other geographies, involve border-crossings and passports.

And today, like our customers, most of us have a significant “elsewhere” that we stay in touch with using the latest communication technologies, whether we are getting the weather report online before we head to the lake on the weekend, sending an e-mail to relatives overseas, or making the “I’ll be home shortly” call on the last leg of a road trip.

This year’s SaskTel annual report reflects our role in connecting people and communities across the distances that identify Saskatchewan and its place in the world. That role continues to evolve as we adjust to regulatory and marketplace realities that have shifted our revenue base away from what we once thought of as our core services. But, even when our business plan leads us toward new sources of revenue, Saskatchewan people and communities are the beneficiaries. Since 1987, SaskTel has invested more than \$2 billion into creating and building one of the world’s finest telecom networks. We are able to sink that level of investment back into the province precisely because

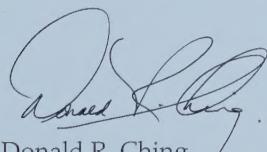
# BRIDGING THE DISTANCE

we have a diverse and financially sound revenue base. If we would have stayed strictly with traditional lines of revenue, those financial resources simply would not have been available – and towns like Loon Lake and Frontier would not have access to high speed internet.

Which leads us to the most striking recent example of SaskTel's efforts to link Saskatchewan people to one another and to the rest of the world. In 2003, we completed deployment of high speed internet to a greater percentage of rural homes than any other service provider in Canada. CommunityNet has allowed us to go into communities with fewer than 100 residents. With the completion of this phase we have brought high speed internet service to more than 75% of Saskatchewan residents, and we continue to look for ways to reach our ultimate goal of increasing that figure to 95%.

Equally exciting this year was SaskTel Mobility's launch of the next generation of wireless data technology, called 1xRTT. 1X allows wireless customers to download information from the internet up to five times faster than previously offered speeds. Providing "always on" access, the new technology gives our customers remote wireless access to e-mail, corporate intranets, catalogs, order processing – everything they would ordinarily access from their own office. It also sets the framework for enhanced service offerings that will further improve convenience, productivity, and personalization for our customers.

Whether we are delivering the latest wireless technology, digital subscriber line services or plain old dial tone, though, we always keep Saskatchewan and the particular needs of its communities, businesses and families in mind. We are acutely aware that the communication tools we offer – wireline, wireless, internet, broadcasting, and e-business – have become primary ways for Saskatchewan people to shorten the distance between two points. With that awareness comes responsibility and accountability, which, I am happy to say, the SaskTel board, executive and staff served well once again during the past year. Were it not for their day to day commitment, developing, marketing, installing and maintaining the technologies that extend the personal reach of our customers around the planet or down the street, Saskatchewan's great distances would still be the barriers to community and commerce that they once were.



Donald R. Ching  
President and Chief Executive Officer

## **Sharing the wealth – globally and locally**

A primary source of our wealth as a corporation is the technical know-how we have developed at home and abroad in delivering telecom services to remote areas, regardless of economic or geographic barriers. It might be the Precambrian shield of Saskatchewan's north, it might be the South China Sea, or it might be underneath the English Channel, but we will find a way to bring telephone and data services to people wherever they move or live.

### **SaskTel International**

Sharing our expertise with the world has been part of SaskTel International's (SI) proud heritage right from the beginning. Ask the people of the Kagera region in northwestern Tanzania. In a series of seven fee-for-service contracts over the past 16 years, ranging from the delivery of basic dial tone services to high speed optical networks, SaskTel International has outfitted Tanzania with an array of modern telecom services. Backed by funding from CIDA (Canadian International Development Agency) and international financial institutions, SI has installed communication systems that have greatly improved the lives of Tanzanian citizens. People who once had either poor quality service or no service whatsoever can now call for advice on medical emergencies, take distance education training, and use fax, e-mail, and phone to conduct business. Late in the year, SI received an award for its work in bringing telephone service to the Kagera region of Tanzania. The award, offered by CIDA and the Canadian Manufacturers & Exporters, was for Improvement of Physical or Social Infrastructure.

The latest fee for service contract in Tanzania came last year when SI signed a deal worth \$2.1 million to rehabilitate outside plant infrastructure in the city of Dar es Salaam and three other cities. The benefits to Tanzania's economy from SI projects are immediate and varied. In addition to the economic spinoffs from modernized telecommunications, these projects create jobs locally. In fact, SI takes care always to train and use local workforces as much as possible when they work in Tanzania. But there is a very real benefit here too for Saskatchewan. Each of these projects brings revenue back to SaskTel, strengthening our financial well-being and enabling us to invest more in our own telecom network. Over the past decade and a half, SI's work in East Africa alone has generated more than \$58 million in revenue. This kind of success has increased SI's stature in the international consulting field. In 2003, in fact, a global market analysis on telecom consulting ranked SaskTel International among the top 20 consulting firms in the world.

Meanwhile, SI's software solutions division generated record revenues out of its client base in 2003, as its newest customer, TDS Telecommunications Corporation, began aggressively converting its telecom facilities to *MARTENS®* and MAGIC (Modular Application Gateway Interface Connector) software products and services.

In a recent issue of the newsletter for the Technology Research Institute, SI was recognized as a leading supplier of OSS solutions to North American tier 2 LECs (local exchange carriers).

Since 1986, SaskTel International has helped bring revenues of \$476 million and total profits of \$116 million. Without this kind of diversified revenue from solid performers like SI's software and contract consulting divisions, SaskTel would not have the base of financial strength that has allowed us to continue upgrading one of the world's most advanced rural telecom systems.

## Bringing it back home

In other words, we take what we learn and gain in our international contracts and return it home to the rural communities where we first pioneered these telecom systems. Like the rural citizens of Kagera, the people on farms and small towns of Saskatchewan have been receiving new and better telecom services from SaskTel year after year. And, here too, there are larger economic spin-offs for the local economy and culture. With high speed internet now in every Saskatchewan community of 800 or more, accessing the global economy no longer requires an address in New York or Toronto. There are people living in some of this continent's largest cities who do not have the internet access enjoyed by the citizens of Climax or Meath Park. Likewise, our digital cellular network has reached far into the remote areas of the province, covering 94% of the province's population, including northern communities such as Ile-a-la-Crosse, Buffalo Narrows, Beauval, and La Loche.

In addition to the economic, educational, and cultural opportunities that come to a region when it receives high speed internet, digital cellular service, or 1xRTT, the new generation in wireless data access, SaskTel always takes care to ensure that the local economy receives a share of the revenue generated by the sale of these new offerings. Through our extensive dealer network, we work directly with independent businesses to bring SaskTel products and services to your neighbourhood. With 96 dealers selling our wireless services in 41 communities, 75 selling SaskTel High Speed Internet Service in 36 communities, and 45 selling *Max™* Interactive Services in nine communities, our products and services make a significant contribution to Saskatchewan's retail economy. Helping to keep 800 people employed at these businesses in towns like Shaunavon, Strasbourg, Unity and Hudson Bay, this distribution network gives our customers local sales and support when they purchase SaskTel products. It also gives us a way of keeping in touch with the needs of our customers around the province. We work closely with our dealers whenever we are adding a major new service, such as 1xRTT, ensuring that they receive the training and support they require.

Whether we are working with the World Bank on a project overseas or with D.R. Auto Extras in Yorkton to sell our wireless data services, SaskTel is building the relationships and infrastructure that encourage economic health, innovation, and diversification.

CONNECTING BUSINESS



Geoff Huber  
Echo Sound  
Fort Qu'Appelle  
SaskTel Mobility dealer

**Geoff Huber** "Being a SaskTel dealer has allowed us to diversify and expand our business. It has made us stronger and more viable, and that means more stable employment for our staff. We trust in SaskTel to provide us with quality products and services and we pass on this confidence in the products and services we sell to our customers."

**Max Interactive Services – our award-winning  
bundle of internet and TV.**



Saskatoon, SK

# CONNECTING PEOPLE

Growing up in a place like Saskatchewan you learn early on that it isn't polite to brag. Modest understatement is an art form here. There may be a record crop in the bins but if anyone asks about the year, the answer is "not bad." Catriona LeMay Doan is "a pretty good skater." At SaskTel, we don't like to put on airs either, but when we get something right, doing it better than anyone else, we might let loose with a brag or two. The way we see it, even stubblejumpers are entitled to crow a bit now and then.

## High speed internet in your home town

The times we feel proudest as a corporation are when we know that we have found a made-in-Saskatchewan solution to an economic or technical problem, overcoming the unique challenges of our geography and demographics. It was only a couple of years ago that our high speed internet network was limited to eight communities. Thanks to CommunityNet, an alliance of government, health and education sectors that provides the anchor customer for our high speed internet expansion, we now serve more than 237 communities. With high speed internet now available in every community of 800 or more, and many even smaller, Saskatchewan's small businesses are finding new ways to compete in the national and international economy, and rural communities are joining in the global interchange of ideas, learning, and entertainment. The National Broadband Task Force has called our high speed internet network "the most advanced undertaking by any comparable national, state or provincial government anywhere in the world."

## Maximizing our technology

A successful introduction of a new communications technology requires a happy marriage of engineering and business. Our experience in entering the broadcasting market with *Max* Interactive Services is a case in point. Our vision from the beginning was to bring together technologies in a new way. We set out knowing that we wanted to provide the people of Saskatchewan with the ultimate in interactive services now available, and that it would be significant not just for Saskatchewan but for the entire industry. Thanks to our innovative engineering staff and the team that developed a solid business plan for the project, that vision came true. At the end of its first anniversary, *Max*'s customer base was still growing strong, and demand for the service was keeping our installers on the go day in and day out. In fact, *Max* Services have enjoyed far greater growth than dial-up internet service, high speed internet service and cellular service did when they were launched. In 2003, *Max* Interactive Services received an award for exceptional engineering from the Association of Professional Engineers and Geoscientists of Saskatchewan. With enriched services like video-on-demand being added over the *Max* Services platform, SaskTel is confident that the service will become a mainstay of our broadened revenue base.



Kimberly Arnot  
Moose Jaw  
SaskTel *Max* customer

**Kimberly Arnot** "We like having the internet and the TV in one bundle and only having one bill."

SaskTel 1X wireless access –  
always on and always fast.



Richardson, SK

## Mobile communications in overdrive

If expanding our reach to cover more of the province and adding new interactive services are two pillars of pride at SaskTel, the third is our ongoing effort to enrich the wireless experience available to our customers. Saskatchewan people more than ever are on the move whether they are at work, home or at play. They are coming to expect faster and better remote access to every kind of communications, whether it is e-mail, corporate data, or web services. In many ways, 2003 was the year text messaging became a household word in Saskatchewan. At unprecedented rates now approaching two million messages a month, Saskatchewan people are sending text messages to interact with their favourite TV programs, enter contests, and keep in touch with one another.

Giving our customers fast and effective remote access to e-mail, internet, and corporate information has become a priority at SaskTel Mobility. Our new Wi-Fi (wireless fidelity) service offers wireless access to the internet at speeds approaching that of landline high speed internet. At certain access "hotspots," such as airports, coffee shops, and campgrounds, people in Saskatoon and Regina can now use a laptop (with Wi-Fi card installed) to connect wirelessly to the internet or their own corporate network, so that they can check e-mail, log an invoice, or send a report.

This was also the year that SaskTel Mobility took a leap forward in the evolution of wireless services by rolling out our new 1xRTT service. Short for single carrier (1X) radio transmission technology, this system overlays our existing digital network with a platform that gives customers high speed access to a complete array of communication services. Our 1X customers are finding it a huge improvement over previous generations of wireless data access. 1X gives them access to their own corporate data, the internet, e-mail, and telephone service – all over Saskatchewan's biggest data network and all at five times the speed of previous generations of wireless data transmission. Imagine going to your customer's home or place of business and being able to call up schedules, catalogs, and requisitions, check inventories and process orders on site. When you leave one customer your paperwork is done and you are ready to do the same for the next customer. No matter where you are – in the airport, on the golf course, at a restaurant – you can access the information you need when you need it. You can use a *BlackBerry Wireless Handheld*, a laptop, a web-enabled digital phone, a palm-top device, or a pocket pc device. No downtime and no need for dial-up, because with 1X your connection to the network is always on. With that kind of access how can we keep from bragging?

## CONNECTING TECHNOLOGY



Bob Redpath

Saskatoon

SaskTel 1X customer & realtor

### Bob Redpath

"1X is good for me because whenever I'm out and around I don't have to do all of my work at the office. Our daughter rides a horse so we spend a considerable amount of our time at the barn. I'm able to take my work with me and while she's riding I'm able to do some work, whether it's checking new listings for clients, checking my e-mails, or just surfing the web. There's such a difference in speed. It's just so much faster."

Enhancing the lives of Saskatchewan people.



Wanuskewin, SK

## SaskTel and the community

One of Saskatchewan's other identifying characteristics is its community spirit. Well before the province existed, people who chose to settle in this place quickly realized that the way to improve quality of life on the plains was through collective effort. As attractive as the myth of the fiercely independent pioneer may be, the truth is that Saskatchewan was built by the efforts of rural people working together in local producer and consumer cooperatives, farmer organizations, and ladies aid and church groups.

Shared effort to meet common goals is the SaskTel story too, described in detail on the pages of *Dreaming Big: a History of SaskTel*, which we published last year. As this book demonstrates, rural telephone service in the province, and by extension SaskTel itself, has its roots in the hundreds of farmer-owned cooperatives that built and maintained thousands of miles of telephone pole lines linking farm to farm across the prairie.

Over recent decades as modern telecom service became more sophisticated, these small cooperatives were brought into SaskTel, with the last of them joining us as recently as 1990. But that link to rural community remains strong within this corporation. It is part of who we are, not only as a telecom company but as employees who can well remember the days of the long ring and the party line. In fact, one of the main priorities of our community investment program is the enhancement of rural life.

Each year, SaskTel donates hundreds of thousands of dollars to non-profit and charitable groups around the province, helping to sustain the latest generation of that same community spirit. This past year we donated \$1.7 million to 1,570 organizations, much of it to groups that enhance quality of rural living. One example is our sponsorship of Saskatchewan Council for Community Development's Excellence in Leadership program. An online learning module aimed at developing community leaders in Saskatchewan, this program was designed specifically with rural people in mind.

Many of the organizations SaskTel sponsors rely on unpaid labour to run events and programs, tapping into the volunteer ethic that is at the core of Saskatchewan's communitarian values. National surveys show consistently that volunteerism rates are higher in Saskatchewan than in any other province. SaskTel employees are eager participants in that tradition, whether they are leading a scouting troop, helping out in a museum, or pitching in with our own favourite volunteer group, the SaskTel Pioneers.

**SaskTel Pioneers** is an organization of more than 4,200 active and retired SaskTel employees who give freely of their time and energy to support various community projects that enrich the lives of Saskatchewan people. By pulling together the various skills of regular members (current SaskTel employees), Life members (retired), as well as their partners and families, the Pioneers capitalize on the intergenerational synergy that happens when youthful enthusiasm is hitched to wisdom and experience. Cross-generational teams that combine senior members with some of SaskTel's newest employees and their families work throughout the year and across the province on a dizzying array of projects and events – ranging from the distribution of 6,000 books to students in La Loche to the repair and delivery of 1,100 used computers to schools.

## CONNECTING EMPLOYEES



Sherry Pulles  
SaskTel employee & Pioneer

**Sherry Pulles** "As an employee I feel proud to work for a company that gives back and cares about the community by providing those in need a helping hand or by providing resources for the future. I feel very proud to work at SaskTel and hopefully through Pioneering we can bring what we learn in the workplace to our communities."



SaskTel Mobility keeps you in touch over the  
most extensive network in Saskatchewan.

Regina, SK

The SaskTel Pioneers have always led the way in SaskTel's community involvement, but this last year was a standout for many reasons. In 2003, the organization received an unprecedented total of 15 awards at the national and Canadian Region levels and contributed \$461,635 in charitable donations and 62,042 hours of volunteer time to community projects – a contribution of time that is valued at more than \$1 million, using the Canadian volunteer labour standard. While the Pioneers continue to depend on the dedication of its many long-standing members, this past year witnessed a new focus on engaging youth. There have been some exciting developments coming out of a new national youth committee called "the Y-Team" and made up of young members of Telecom Pioneers from SaskTel, MTS, and Aliant.

Another employee-led initiative that links SaskTel to the wellbeing of the community it serves is SaskTel TelCare, our community benevolent fund. Last year TelCare donated \$247,492, which was matched 50% by SaskTel for a total of \$371,239 to assist more than 75 Saskatchewan charities.

With the **Grey Cup** once again in Saskatchewan, SaskTel played a prominent role in helping thousands of Saskatchewan people and guests from around the nation go "flat-out" during the week of celebrations. One of the many elements we sponsored was the Friends-with-Friends program, encouraging people to open their homes to host visitors in need of accommodations. Prairie hospitality, another characteristic of Saskatchewan people that SaskTel tries to honour, turned a problem – accommodation shortages – into a strength and a source of pride.

One of the most direct ways SaskTel fosters healthy community in Saskatchewan is by employing more than 4,000 people in over 50 Saskatchewan communities. Community-building requires healthy and skilled people and at SaskTel we've learned that if we empower our own people they not only become more valuable as employees but also as ambassadors for the corporation as they live and interact within the larger culture. One of our hiring priorities is to develop a workforce that reflects the province's rich diversity while helping us to achieve our business goals. In 2003, we met our employment equity goal to hire 30% from the following groups: Aboriginal people, people with disabilities, visible minorities, and women in non-traditional roles. SaskTel also strives to provide jobs for Saskatchewan youth. In 2003, 77% of the full-time positions available were filled by students from Saskatchewan post-secondary institutes.

SaskTel's 2003 employee survey showed that 82% of SaskTel employees rate SaskTel as an above average place to work – a figure that is 23% higher than the average rating employees of 500 other North American companies give for their employers.

That perception, along with many other factors, has helped SaskTel earn national recognition as a top employer. For the fourth consecutive year, SaskTel was recognized as one of "Canada's Top 100 Employers," by Mediacorp Canada Inc. (as highlighted in *Maclean's Magazine*). As well, SaskTel made the *Globe and Mail's* 2004 list of "The Fifty Best Employers in Canada."



SaskTel Pioneers  
(from top)  
Kim Richardson,  
Alice Barss,  
Norm Lorenz

**SaskTel Pioneers** "Always generous with their time, the SaskTel Pioneers work hard to make Saskatchewan communities better places to live."

Another way SaskTel supports the provincial economy is by maximizing the Saskatchewan content of goods and services that we purchase. In 2003, we spent \$215 million on materials and services from over 4,100 Saskatchewan suppliers. And, according to a survey of our suppliers conducted last year, 76.4% of respondents are satisfied with their relationship with SaskTel.

A recent study confirmed that our customers also view SaskTel in a positive light. Conducted in 2003 to determine customers' personal perceptions of Saskatchewan corporations, the survey shows SaskTel scoring an average of 7.58 out of 10 (with 10 being the most positive), ranking number one among 10 private and public companies.

### **Environmental impact for 2003**

In 2003, SaskTel expanded environmental initiatives internally, while continuing to grow and develop existing and new partnerships with community groups. SaskTel continually reviews its operations and practices to ensure compliance with both governmental standards and our own environmental standards and will be reviewing our commitment to the Kyoto Accord.

#### **SaskTel Buildings**

In 2003, we completed a project aimed at reducing electricity consumption at Head Office by disconnecting lights and introducing a low-voltage lighting control system, resulting in significant savings totalling more than 1500 megawatts per hour.

At the same time we have replaced some of the air conditioning systems in our buildings, switching over to an environmentally friendly technology that is 20% to 40% more efficient.

SaskTel continues to purchase approximately \$40,000 annually or 1,600,000 kilowatt hours of "green" power produced from wind turbines.

SaskTel undertook additional measures to safeguard our employees and property from accidental spills from telecom batteries by providing spill containment kits and acid neutralizer in large offices and in 96 corporate vehicles.

#### **SaskTel Northern Sites**

In 2003, environmental assessments and safety inspections were conducted on 70 SaskTel buildings at 30 different locations in northern Saskatchewan to assure compliance with all Safety & Environmental regulations, assess land impacts and conduct risk assessments with respect to employee safety and site contamination. Recommendations were made and sent to the appropriate departments for action.

Based on past detailed spill risk assessments at all of our underground fuel storage sites, SaskTel continued soil remediation at five northern sites. Cleanup measures at two decommissioned remote tower sites, Hawkrock River and Hatchet Lake, are now complete, with the requirement to monitor and report the progress of the biodegradation to Saskatchewan Environment and Resource Management every five years. Two other locations still under remediation are Geikie River Radio and Maudsley Lake Radio. Both of these sites have been under remediation since 1997 and are monitored periodically with progress reports going to Saskatchewan Environment and Resource Management.

### **Recycling and Waste Reduction Programs**

Reduce, reuse, recycle, and recover will always form part of SaskTel's environmental commitment. In 2003, SaskTel Safety & Environment developed an expanded corporate-wide recycling and waste reduction program. The program included the recycling or safe disposal of 1,879 kg of waste batteries, repairing and donating 1,500 computers, partnering with the Food Bank to recycle inkjet and photocopier toner cartridges, as well as cell phones.

SaskTel continued to operate and maintain a hazardous waste storage facility at 2133 First Avenue in Regina. This facility, registered with Saskatchewan Environment and Resource Management, temporarily stores hazardous materials and other waste products until they can be disposed of safely.

### **Paint & Directory Recycling – A Province-Wide Partnership**

SaskTel's "Paint It Recycled" days were held in 10 centres across the province and over 200 – 45-gallon drums of paint were collected, thanks in no small part to the efforts of the SaskTel Pioneers. In 2003, an estimated 260,000 outdated telephone directories or 250,000 kgs of paper were recycled on a province-wide basis, a return rate of 32% of all directories distributed by DirectWest.

DirectWest continued its commitment to the environment in the production of directories by using environmentally friendly vegetable inks and requiring its printer to use a direct plate printing process that eliminates the need for film processing chemicals.

### **Compressed Natural Gas (CNG) Vehicles**

Last year SaskTel deployed three new Ford compressed natural gas fuelled vans. In a 10-month period (December 2002 – August 2003), these vehicles travelled a total distance of 12,331 kilometres, thus reducing carbon dioxide by 6,468 kilograms (6.47 tons).



Connecting Saskatchewan  
with the world.

## Introduction

The following discussion focuses on the strategies, consolidated financial position and results of operations of Saskatchewan Telecommunications Holding Corporation (SaskTel or the Corporation), including its major strategic business units, its subsidiaries, and its investments in significantly influenced companies. This discussion and analysis should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes on pages 46 to 65 of this report.

## Forward-Looking Information

Many sections of this discussion include forward-looking statements about SaskTel, its objectives, strategies and financial condition. A statement is forward-looking when it uses information known today to make an assertion about the future. Forward-looking statements may include words such as *anticipate, believe, could, expect, intend, may, should, will* and similar expressions. Since these forward-looking statements reflect expectations and intentions at the time of writing, actual results could differ materially from those anticipated if known or unknown risks and uncertainties impact the business, or if estimates or assumptions turn out to be inaccurate. As a result, SaskTel can not guarantee that any of the predictions forecasted by forward-looking statements will occur. As well, forward-looking statements do not take into consideration the effect of transactions or non-recurring items announced or occurring subsequently. Therefore, SaskTel disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a more detailed assessment of the risks and uncertainties that could impact future results, please refer to the Risk Assessment section of this report on page 41.

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## Overview and Strategic Focus

SaskTel is the leading full-service communications provider in Saskatchewan, providing competitive voice, data, dial and high speed internet, web hosting, secure electronic transactions, text and messaging services over its digital network. The Corporation also provides cellular and wireless data services through SaskTel Mobility, security monitoring

services through SecurTek Monitoring Solutions Inc., directory services through DirectWest Publishing Partnership, in-room communications services to the healthcare sector through Hospitality Network Canada Partnership, telecommunications consulting services through Saskatchewan Telecommunications International Inc. and national telecommunications services through Navigata Communications Inc. This growth and diversification is a key part of SaskTel's financial viability that allows the Corporation to deliver state-of-the-art communications services to every corner of Saskatchewan.

With a workforce of approximately 4,000 employees living throughout Saskatchewan, SaskTel provides communication services to more than 425,000 customers living in 13 cities and 535 smaller communities (including 72 First Nations communities) and their surrounding rural areas and about 49,000 farms. SaskTel's subsidiaries also have points of presence throughout Canada and internationally.

SaskTel is a highly innovative and competitive communications solutions provider for its customers worldwide, delivering sound financial returns and public policy benefits to the people of Saskatchewan. In striving to achieve this vision, SaskTel has identified six long-term strategic imperatives (see the Performance Management section of this report, page 22 to 25). However, SaskTel's success in achieving its vision depends on the following three overall key strategies: Focus on the Customer, Operational Efficiency, and Growth and Diversification. Together these three overarching strategies form a way of thinking and behaving that drives positive performance. Management attributes the Corporation's success over the last 10 years to its consistent focus on these three strategies.

## FOCUS ON THE CUSTOMER

Based on customer feedback, SaskTel currently enjoys industry-leading market shares in most key lines of business and very strong public perception and customer service indicators. Over the last 10 years, SaskTel has successfully evolved from its former status as a monopoly supplier to become a highly competitive customer-focused company. For continued success in a competitive environment, SaskTel must maintain and continually renew its commitment to building and improving customer relationships and loyalty, and ensure service continues to be a differentiator for the Corporation. If each interaction delivers true service excellence, this customer excellence will drive strong revenues, market share and return on investment.

## OPERATIONAL EFFICIENCY

As competition, regulation and other significant challenges began to emerge in the telecom industry in the early 1990s, cost containment became important to ensure the long-term financial strength of the Corporation. Since then, SaskTel has aggressively reduced its debt ratio and interest costs. Other cost containment measures have included process improvements, personnel reductions within the wireline

business, and product exits. In 2003, the Corporation completed a three year Operational Efficiency Program successfully realizing close to \$60 million in annualized cost savings within its traditional wireline operations. Given ongoing challenges, the Corporation must continue to focus on reducing operating costs to ensure its long-term viability. Cost reduction programs are pursued within the framework of maintaining customer loyalty and high-quality service, while minimizing negative impacts on employees. Cost efficiencies are an important component of SaskTel's strategy; however, cost curtailment alone will not lead to SaskTel's future success. A continued focus on growth is also important if SaskTel is to meet its targets and continue to satisfy customer, shareholder and employee expectations.

### **GROWTH AND DIVERSIFICATION**

In the early 1990s, SaskTel recognized that revenues and margins from traditional sources would diminish over time due to market share loss, price reductions, and regulation. In preparation, management developed a *growth and diversification strategy* to take advantage of new product and service opportunities and replace revenues lost from traditional sources. The purpose of this strategy is to increase revenues and profitability from new and diversified sources and to add value for customers and the shareholder, *without significantly increasing the overall risk profile* of the Corporation and *without changing or jeopardizing the Corporation's primary purpose of serving Saskatchewan first*.

A key component of the Corporation's growth and diversification strategy is risk mitigation and management. Not all new services and ventures can reasonably be expected to be successful; however, a number of appropriate parameters and governance structures are in place to mitigate risk. For a more detailed discussion of how the Corporation manages its investment risk, see the Risk Assessment section of this report on page 42.

Much of the Corporation's current investment portfolio is in the start-up or development stage. This means that the initial investment necessary to start and grow a business is still in progress. The businesses' financial plans call for profitable operations within three to five years from the beginning of operations, which is a typical business start-up period.

The Corporation's external investment program goal is to build value for the future, and this portfolio *is* building value for the future. Based on the most recent business plans for these investments, the estimated value of the Corporation's current external investment portfolio is \$240 million to \$320 million compared to the \$159 million net amount invested.

SaskTel's growth and diversification strategy focuses on increasing revenues and profits by deploying:

1. New products in existing markets.
2. Existing products in new markets.
3. New products in new markets.

### **1. New Products in Existing Markets**

The Corporation has aggressively introduced new services in existing markets as a significant component of its growth strategy.

#### **Saskatchewan Telecommunications**

Saskatchewan Telecommunications is a wholly owned subsidiary that consists of two operating segments, SaskTel Wireline and SaskTel Wireless.

#### **SaskTel Wireline**

SaskTel Wireline provides traditional voice services, and has expanded to include evolving data, dial-up and high speed internet, data storage and web-hosting, text and messaging services and enhanced services such as calling features like Call Display and Name Display and *MessageManager™* service. The company leverages its leading-edge, digital network to offer additional services to its customers. For instance, in 2002 the Corporation launched *Max™* Interactive Services and has continued to expand this service throughout 2003. This service delivers high speed internet entertainment services to customers all in one package. By year end, there were over 14,000 *Max Service* customers compared to almost 3,000 at the end of 2002. This *Max Service* customer growth reflects one of SaskTel's most successful new product introductions. *Max Service* has experienced greater growth than dial-up internet service, high speed internet service and cellular service did when they were initially launched. During 2003, SaskTel launched *Max Front Row™*, a complement to *Max Interactive Services*. *Max Front Row* Service is a video-on-demand service where customers enjoy all the benefits of renting a movie without leaving their home. Product enhancements to *Max Service* will continue in 2004.

#### **SaskTel Wireless (SaskTel Mobility)**

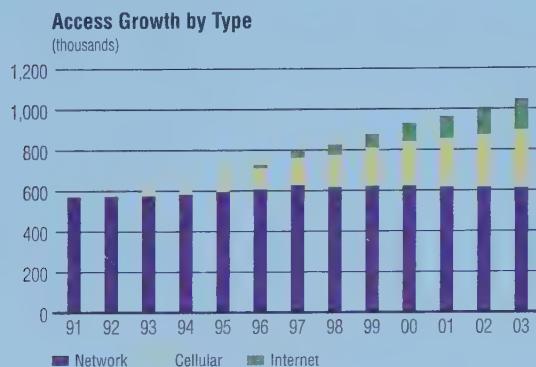
SaskTel Mobility is Saskatchewan's largest wireless service provider, offering wireless voice, data, digital products and services and innovative business solutions. SaskTel Mobility delivers wireless services to the people of Saskatchewan, the traveling public, telecommunications carriers and other select North American markets. This business unit continues to diversify into new services, products and markets. Since its inception in 1989, annual operating revenues have grown to \$167.2 million and wireless subscribers have increased to over 295,000.

Since 1998, SaskTel Mobility has invested extensively in its digital cellular network bringing wireless services to more than 94% of Saskatchewan's population. As well, the company has completed the expansion of its 1xRTT wireless data network and it is available throughout SaskTel Mobility's digital cellular coverage area.

## management's discussion & analysis overview and strategic focus

### Saskatchewan Telecommunications Access Growth

The following graph illustrates the areas of growth and focus, and how significantly the nature of Saskatchewan Telecommunications has changed:



Today, evolving wireline, internet and wireless accesses are core service requirements of the Corporation's customers.

### DirectWest Publishing Partnership (DirectWest)

DirectWest, a wholly owned subsidiary of the Corporation since 1997, has been publishing telephone directories in Saskatchewan for over 45 years. The business has evolved to include new media opportunities and expanded into the internet market and the agricultural advertising and publishing market. DirectWest publishes and distributes 10 telephone directories in the cities and districts across Saskatchewan, and provides all its directories online at Saskatchewan's leading internet portal: [www.mysask.com](http://www.mysask.com). Besides consistently generating value through its directories (print and online), the company continues to add new services and solutions for its customers such as web site development, online advertising, e-mail marketing, e-commerce and agricultural advertising. DirectWest's head office is in Regina, with a second office in Saskatoon. The company employs over 100 people in Saskatchewan.

### Hospitality Network Canada Partnership (Hospitality Network)

Hospitality Network, a venture founded with private Saskatchewan business interests to provide entertainment services to the hospitality industry in Saskatchewan, began operations in 1994 and has evolved to become Canada's leading provider of television and telephone services in hospitals and long-term care homes. Its head office is in Regina, Saskatchewan, with 334 employees nationwide, including 35 in Saskatchewan. The Corporation currently owns 94.1% of Hospitality Network. This venture has been profitable since 2000 and continues to evolve its products, pursue growth opportunities and build value for its shareholders.

### SecurTek Monitoring Solutions Inc. (SecurTek)

SecurTek, a wholly owned subsidiary of the Corporation, provides commercial and residential security monitoring

services to customers in Saskatchewan, Alberta, Manitoba, British Columbia and selectively in Ontario, from its Yorkton, Saskatchewan and Winnipeg, Manitoba monitoring centres. Operating a security monitoring centre leverages the Corporation's call centre, network management and process expertise. Through its established dealer program, SecurTek partners with small businesses that provide security sales and service to end customers. At year end, SecurTek had 28 dealers, including 14 in Saskatchewan. SecurTek has over 100 employees, including 77 who work at SecurTek's head office in Yorkton. SecurTek has been profitable since 2002 and expects to continue developing and improving its business and financial performance in 2004.

### TappedInto.com, Inc. (TappedInto)

TappedInto is an internet broadband streaming company that offers internet streaming services to companies in Saskatchewan, North America and Europe. SaskTel invested in TappedInto to combine the Corporation's existing data hosting and video streaming competencies with marketing and sales reach outside Saskatchewan.

In 2003, TappedInto merged its operations with Toronto, Ontario based Streamlogics Corporation (Streamlogics). This transaction resulted in the Corporation retaining a 37.4% equity interest in TappedInto, which includes on a consolidated basis the operations of both TappedInto and Streamlogics. TappedInto and Streamlogics provide live and archived webcasting services over the internet and the two companies amalgamated in January 2004. The merger of TappedInto and Streamlogics positions the combined entity as Canada's largest provider of webcasting services. TappedInto has offices in Toronto and Regina and is expected to become profitable in 2004.

During 2003, the Corporation determined that the carrying value of TappedInto exceeded its fair value and wrote down the book value of its investment in this company by \$2.8 million.

### Business Watch International Inc. (BWI)

BWI's technology leverages the internet to enable pawnshops and other second-hand property dealers to report their transaction data to law enforcement agencies. In turn, BWI provides the police with a web-based application that delivers a comprehensive software tool to assist in the investigation of property crimes. SaskTel established an equity ownership in BWI to combine private sector ideas and concepts with the Corporation's hosting, internet and e-business expertise and security protocols.

During 2003, the Corporation invested an additional \$0.4 million in BWI, increasing its ownership to 94.3%. The company is continuing to gain market traction and acceptance in Canada and the United States. In January 2004, BWI announced the signing of a \$1.1 million contract with the Metropolitan Washington D.C. Council of Governments for the design and development of a regional pawn transaction data sharing system.

BWI is expected to become profitable in 2004. Successful execution of BWI's business plan depends partly on legislation to make automated reporting mandatory for the pawn and second-hand industry. BWI's head office is in Regina and the company employs 11 people, including eight in Regina.

#### **Persona Inc. (Persona)**

Persona, formerly Regional Cablesystems Inc., provides cable TV, internet access and telecommunications services to communities in Canada. At the end of 2003, the Corporation owned 1,223,491 shares of Persona representing a 6.2% ownership. This ownership interest is unchanged from 2002.

During 2003, Persona's shares continued to trade below the Corporation's book value of \$12 per share, and SaskTel management now believes that this decline is other than temporary. As at December 31, 2003, Persona's share price was \$4.30 per share; however, in January 2004, Persona's Board of Directors endorsed acceptance of an offer to purchase all of its issued and outstanding common shares at \$6.80 per share. Therefore, the Corporation wrote down its investment in Persona by \$6.4 million to \$6.80 per share. If the Corporation elects to sell its shares at \$6.80 per share, SaskTel will realize an overall cash gain of approximately \$2.0 million.

#### **Soft Tracks Enterprises Ltd. (Soft Tracks)**

Soft Tracks is a software solutions provider that delivers a suite of mobile commerce and electronic payment products to the wireless communication and electronic payment industries. SaskTel entered into this investment as a research and development opportunity for future services in the wireless business. During 2003, the Corporation invested an additional \$0.5 million in Soft Tracks, increasing its ownership to 20.5%.

The market for Soft Tracks' solutions has not materialized as quickly as expected due to slow commercialization and market acceptance of wireless payment services. Therefore, at year end, the Corporation wrote down its investment in Soft Tracks by \$0.9 million.

Subsequent to year end, the Corporation and its Soft Tracks investment partners sold some of the company's assets. SaskTel's share of these proceeds is approximately \$0.1 million. In addition, the investment partners are working to sell the remaining operations. If the Corporation disposes of its equity interest in Soft Tracks, it will continue to generate revenue by operating the Soft Tracks Gateway for the benefit of its customers.

### **2. Existing Products in New Markets**

#### **Saskatchewan Telecommunications International, Inc. (SaskTel International)**

SaskTel International, a wholly owned subsidiary of the Corporation, helps its clients in countries around the world develop, improve and expand their telecommunications systems by providing infrastructure project management services. SaskTel International was created to leverage SaskTel's core strengths of designing, building and operating

advanced networks in new markets. In 2003, a global market analysis on telecom consulting ranked SaskTel International among the top 20 international telecom consulting firms in the world.

Over its 17 plus years of existence, SaskTel International has helped bring total revenues of \$476 million and total profits of \$116 million to the Corporation, and has earned a profit every year since 1992. All SaskTel International's revenues and profits are repatriated to the Corporation, where they are used to sustain and improve the Corporation's network and services in Saskatchewan and enhance returns to the Province in the form of dividends. SaskTel International provides employment for 64 Saskatchewan people.

#### **Navigata Communications Inc. (Navigata)**

Navigata, a wholly owned subsidiary of the Corporation provides a full range of telecommunications products and services including local, long distance, internet, telephone cards (pre-paid and post-paid), high speed data, hosting, web services and wholesale carrier services to customers across Canada and internationally. Navigata presents a marketing and sales vehicle for the Corporation to expand its services to markets outside Saskatchewan.

Although in its 2 1/3 years of SaskTel ownership Navigata has incurred losses totalling \$25 million, operating Navigata provides synergistic benefits to SaskTel that have saved the Corporation approximately \$10 million to date. As well operating Navigata allows SaskTel to serve its Saskatchewan-based customers with operations elsewhere in Canada and North America. Prior to this acquisition these customers would have been lost to national service providers. Navigata achieved 27% revenue growth in 2004 and is expected to start generating a profit in 2004. Navigata's head office is located in North Vancouver, B.C. and the company employs 202 people nationwide.

### **3. New Products in New Markets**

#### **Austar United Communications Limited (Austar United)**

Austar United delivers subscription television services throughout regional Australia and subscription television, data services and telecommunications services in New Zealand. At the end of 2002, the Corporation held 9,550,574 Austar United shares at a book value of \$0.36 per share. In July 2003, Austar United issued rights to its shareholders to purchase additional shares on the basis of one new share for every 1.52 existing shares held, at an issue price of \$0.15 per share. SaskTel sold its rights in August 2003 for \$1.1 million (\$0.17 per right). This transaction resulted in a \$0.1 million gain on sale of investments and a revised book value per share of \$0.26. Total cash receipts from this investment to date, including the \$1.1 million proceeds in 2003, are \$38.3 million, reducing the Corporation's exposure at year end to a net \$0.9 million cash invested in Austar United. The December 31, 2003 closing price for Austar United shares improved to \$0.40 per share from \$0.15 per share at December 31, 2002.

## management's discussion & analysis overview and strategic focus

Subsequent to year end, SaskTel sold 2.5 million Austar United shares for cash proceeds of over \$1.3 million. This investment is now cash positive by more than \$0.4 million and SaskTel still holds 7,050,574 shares.

### Saskatoon 2 Management Ltd. (Saskatoon Square)

Saskatoon Square is one of Saskatoon's premiere office towers. During 2003, SaskTel acquired 70% ownership of this property with three other business partners each holding a 10% interest. SaskTel's portion of the \$10.5 million total consideration for this property was 100% debt financed. This purchase secures long-term stability for SaskTel's office space requirements while demonstrating the Corporation's commitment to the city of Saskatoon. As well, SaskTel will enjoy a reduced effective rental rate due to the earnings from its ownership interest in this property.

### Interactive Tracking Systems Inc. (Itracks)

Itracks is a data collection company based in Saskatoon with an expertise in online data collection solutions. During 2003, the Corporation formed a strategic partnership with Itracks to lend this Saskatchewan-based company SaskTel's call centre expertise and further enhance Itracks' expansion plans. SaskTel does not have an equity position in this company, but provided Itracks \$1.0 million of convertible debt in 2003 to expand and further develop their Saskatoon call centre and their Computer Assisted Telephone Interviewing service. Before SaskTel's funding, Itracks had approximately 38 employees. As of the end of December, Itracks employed 35 full-time and 101 casual staff in Saskatchewan which is approximately 69 full-time equivalents.

### Retx, Inc. (Retx)

Retx provides an internet-based load monitoring and curtailment service to the energy sector in North America. The Corporation considered that its experience with industry deregulation, data hosting and internet services would bring value to Retx.

During 2003, the Corporation increased its ownership to 91.7%. Retx's success depends on the speed of regulatory change in the United States and securing increased sales. Although Retx has a solid reputation, regulatory change and adoption of Retx's technology is not progressing as anticipated. Because of this, SaskTel wrote its investment in Retx down by \$10.4 million (goodwill – \$9.4 million; other assets – \$1.0 million) at the end of 2003.

### Craig Wireless International Inc. (CWI)

CWI provides video broadcast and internet access services using wireless technologies and licensed spectrum in Manitoba and British Columbia. At the end of 2003, the Corporation owned 18.7% of CWI. Craig Broadcast Systems Inc. (CBS) owns 81.3% of CWI and continued to inject significant resources into the company in 2003.

### Investment Portfolio Summary

The following charts provide a summary of SaskTel's current investment portfolio and illustrate the significant difference between accounting net book value and market value. Book value represents the minimum value of an investment with one exception: the only time book value will exceed market value is when there is a temporary decline in the market value. The valuations represent management's best judgment regarding the individual investments and, where possible, are calculated using comparable data from the public markets for similar businesses with similar maturity to determine a range of values. Alternatively, investments are valued by discounting their projected cash flows.

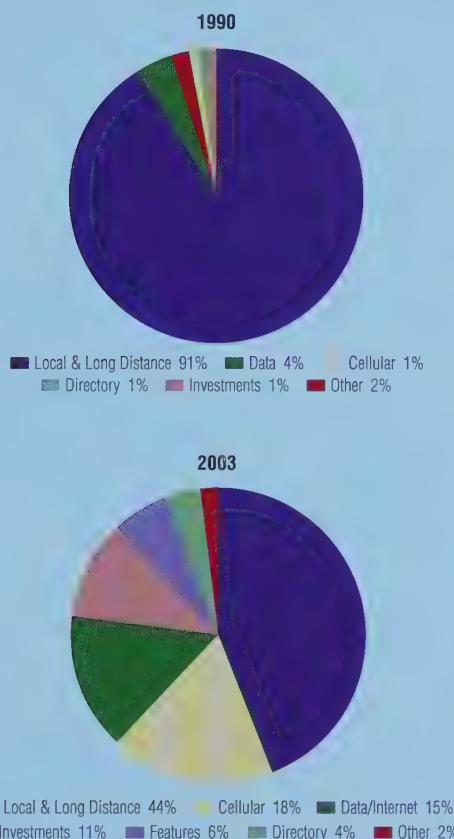
(\$ millions)	Book Value	Valuation Low	Valuation High
DirectWest	\$ 14.1	\$ 118	\$ 148
Navigata	19.9	25	30
SaskTel International	8.7	10	20
SecurTek	33.6	38	50
Non-wholly owned investments	40.7	49	72
Total	\$ 117.0	\$ 240	\$ 320

### Non-wholly owned investments as of December 31, 2003

(\$ millions)	Book Value
Austar United	\$ 2.5
Business Watch International	0.6
Craig Wireless	0.0
Hospitality Network	28.1
Itracks	1.0
Persona	8.3
Retx	(0.6)
TappedInTo	0.7
Soft Tracks	0.1
Total	\$ 40.7

## Results of Growth and Diversification

SaskTel's growth strategy has been successful. The company has grown from \$574.5 million in revenues in 1990 to \$899.4 million in 2003, despite a reduction in long distance revenues of more than \$240 million per year. Comparing the revenue from the products that were offered in 1990 to the products available in 2003, approximately 54% of the Corporation's 2003 revenue directly resulted from its growth and diversification strategy, as compared to about 7% in the early 1990s:



The following are some of the important benefits of the Corporation's growth and diversification strategy, including both internal and external components:

- SaskTel now has six business units contributing net income to the Corporation (SaskTel Wireline, SaskTel Wireless, DirectWest, SaskTel International, Hospitality Network and SecurTek). As well, the Corporation has six business units and ventures in various start-up and development stages. Some of these (Retx, Soft Tracks and Craig Wireless) are at risk of not being profitable; however, others (BWI, TappedInTo and Navigata) are positioned to add and achieve long-term value for the Corporation.

- SaskTel's growth and diversification strategy has fostered a strong entrepreneurial culture, shifting the Corporation from a monopoly telephone company into a flexible competitor. This shift has contributed to the success of new products launched by Saskatchewan Telecommunications.
- SaskTel partners with local businesses throughout Saskatchewan by establishing dealer networks to market products and services. At the end of 2003, the Corporation's dealer network included 96 wireless services dealers, 75 SaskTel High Speed Internet Service dealers, 45 Max dealers and 14 SecurTek dealers. In 2003, SaskTel paid over \$20 million in commissions to its dealers.
- By the end of 2003, SaskTel's growth and diversification strategy created over 560 jobs in Saskatchewan. As well growth initiatives allow SaskTel to maintain jobs within its traditional operations and SaskTel's dealers to create jobs
- The Corporation has significantly reduced its debt load debt ratio has fallen from 72.2% as of December 31, 1990 to 38.4% as at December 31, 2003.
- The Corporation has paid substantial dividends to Crown Investments Corporation – a total of \$803 million in the last 14 years.
- The Corporation has invested over \$2.0 billion in network infrastructure in Saskatchewan in the last 14 years. The additional revenue earned by SaskTel's growth and diversification initiatives has helped SaskTel build one of the best wireline networks in the world and a cellular network that covers 94% of the Saskatchewan population. High speed internet access is now offered to 75% of the Saskatchewan population.
- The Corporation offers and maintains some of the most innovative and best-valued communications services in Canada. Even though Saskatchewan has a high proportion of Canadian Radio-television and Telecommunications Commission (CRTC) defined high cost serving areas, Saskatchewan people and businesses receive the benefit of some of the lowest rates in Canada.

The Corporation's management believes that a selective, disciplined focus on growth and diversification is important to maintain and enhance revenues and shareholder value. Without continued growth and diversification, the Corporation's operating results, its value, its infrastructure and its products and services would diminish and erode. Recent history has shown that today's growth or diversification initiatives are tomorrow's core services.

## Performance Management

SaskTel is a subsidiary of Crown Investments Corporation (CIC), the holding company for Saskatchewan's commercial Crown corporations.

In 1999, CIC and its subsidiaries developed a Crown Sector Strategic Plan to provide long-term direction to the Crown sector and facilitate long-term planning. The plan includes a consistent vision statement for the Crown sector, its primary business purposes, common business values and strategic business objectives. The Corporation has developed its corporate strategic plan to support CIC's five strategic objectives: customer service excellence, financial health, mandate and role, public purpose, and human resources.

The Corporation uses a Balanced Scorecard to measure its performance and results. The objectives of the Scorecard are to: 1) provide a balanced evaluation of operational and financial results, activities and achievements and 2) focus on short and long-term operating and financial results.

The Corporation's vision is: *SaskTel is a highly innovative and competitive communications solutions provider for our Customers worldwide, delivering sound financial returns and public policy benefits to the people of Saskatchewan. Our focus is our Customer. Our strength is our People.* The Corporation has six strategic imperatives that flow from this vision to form the Balanced Scorecard: financial management, customer, technology, growth, people, and public policy. These strategic imperatives are aligned with CIC's overall strategic objectives. Each strategic imperative is defined by a statement of direction. From this statement, SaskTel sets objectives, measures and targets. The scorecard is not static; it may change from year to year as the Corporation's business changes.

The following are the key components of SaskTel's 2003 Balanced Scorecard, including a discussion of performance.

### FINANCIAL MANAGEMENT

**Statement of Direction:** SaskTel will continue to create value for its shareholders. This will be accomplished through growth and improved operational efficiencies in all subsidiaries.

Objective	Measure	Results	
		2003 Target	2003 Actual
Provide a positive return to shareholder.	<u>Consolidated Net Income</u> <i>Net income is the amount remaining when all expenses incurred and accrued during an accounting period are deducted from all revenues received and accrued during that same period. Consolidated net income is the accumulated net income of SaskTel and its subsidiaries after adjusting for inter-company transactions.</i> <u>Return on Equity</u> <i>Net income expressed as a percentage of average total equity.</i> <u>Dividends Declared</u> <i>The share of profits that will be paid to Crown Investments Corporation.</i>	\$94.6M	\$85.1M
Self-sustaining growth.	<u>Debt Ratio</u> <i>Long-term debt expressed as a percentage of total long-term debt and equity.</i>	44.9%	38.4%
Operational efficiency.	<u>Cumulative Expense Reductions in the Year</u> <i>The cumulative total of annualized sustainable savings achieved over the year under SaskTel's Operational Efficiency Program. Target is set to remove costs from traditional operations.</i>	\$10.0M	\$10.0M

### 2003 Financial Management Results

SaskTel did not achieve its net income, return on equity and dividend targets for 2003. Significant contributing factors were CRTC directives that impacted revenues, competitive pressures, and growth and diversification initiatives that have not yet reached their full potential. The Corporation's debt ratio was lower than expected because it continued to self-finance its capital and dividend requirements. In addition, the Corporation successfully removed \$10 million in annualized savings from its traditional wireline operations in 2003.

## CUSTOMER

**Statement of Direction:** SaskTel earns customer loyalty by understanding and delivering what customers value. We place a high priority on establishing and maintaining mutually beneficial, long-term customer relationships that are managed on a corporate-wide level.

<b>Objective</b>	<b>Measure</b>	<b>Results</b>	
		<b>2003 Target</b>	<b>2003 Actual</b>
Understanding and delivering what customers value.	<u>Customer Survey Results</u> <i>Every month, SaskTel completes a random survey of its residential and business customers to assess their perceptions of SaskTel on dimensions important to them when making their telecommunications buying decisions. The Corporation also benchmarks these perceptions against its competitors and other companies. For these measurements, the Corporation uses a standard methodology of rating customers' agreement with a particular statement. The customer must rate SaskTel an eight or better on a 10-point scale for their answer to be considered agreement.</i> Outstanding Customer Service – "SaskTel employees provide outstanding customer service." Easy to do Business With – "SaskTel is a company that is easy to do business with." SaskTel Provides Best Value – "When thinking of everything SaskTel provides, they provide the best value for my communications needs."	70	72
Establishing and maintaining long-term customer relationships.	<u>Market Share</u> <i>SaskTel measures market share for each service based on the proportion of service units attributable to SaskTel in Saskatchewan.</i> Long Distance Local Access Internet – Provincial Dial-up and High Speed Mobility Directory SecurTek	86% 98% 70% 81% 90% 34%	89% 100% 70% 83% 94% 33%

### 2003 Customer Results

Customer feedback indicates that SaskTel is exceeding its targets in providing outstanding customer service, being easy to do business with, and offering value. SaskTel will continuously work to understand what customers need and what they value. Based on market share percentages, SaskTel is also doing very well at establishing and maintaining long-term customer relationships. The Corporation is proud to be a Saskatchewan company and is thankful for the loyalty its customers have shown.

## management's discussion & analysis

### performance management

#### TECHNOLOGY

**Statement of Direction:** SaskTel will be an early adopter of advanced networks and information technologies to support business-driven initiatives to improve our financial performance, generate new growth and deliver excellent customer service. Our people will be recognized for their skill and knowledge in deploying an integrated multimedia network and in transforming our internal processes, the services we deliver, and our relationships with our customers and partners.

Objective	Measure	Results	
		2003 Target	2003 Actual
Increase Internet Protocol (IP) network reliability.	<u>Managed Service Provider</u> <i>These key indicators measure availability/reliability of the Internet Protocol (IP) core network. Indicators are based on server and network availability within and to/from the data centre, using unplanned outages as a percentage of total time available. The measure of success is availability of CommunityNet and/or the stand-alone data centre for SaskTel's major customers. LANspan IP™ service supports the CommunityNet Program by connecting educational institutions, health care facilities, government offices and private sector businesses.</i> LANspan IP Availability 10/100 Mbps Data Centre(s) Availability	99.80%	99.92%
Competitive high speed internet service provider.	% of Saskatchewan Population with Access to SaskTel's High Speed Internet Service	99.95%	99.98%
		81%	75%

#### 2003 Technology Results

The Corporation made significant progress towards its technology objectives in 2003. The availability and reliability of SaskTel's core IP network in 2003 was excellent; however, SaskTel will aim for continuous yearly improvement in this area as part of delivering best-of-class IP services to its customers. Part of the Corporation's mandate is to expand its high speed internet service into rural Saskatchewan. To date 75% of the Saskatchewan population is served compared to 69% at the end of 2002, and SaskTel is exploring ways of economically serving as much of the population as possible.

#### GROWTH

**Statement of Direction:** SaskTel operates in a highly competitive and dynamic market in Saskatchewan. Accordingly, SaskTel continues to pursue opportunities without geographic limits to increase the scope or scale of its business ventures resulting in ever-increasing revenues from non-traditional sources.

Objective	Strategy
Diversify SaskTel's business.	SaskTel is working to provide long-term value for its shareholder through growth and diversification. The results of its growth and diversification strategy are fully explained beginning on page 21 of the Overview and Strategic Focus section of this report.

## PEOPLE

**Statement of Direction:** SaskTel employees are a team of highly motivated individuals, diverse in our skills, experiences and backgrounds. Together, we enjoy personal and corporate success.

Objective	Strategy
Representative Workforce	SaskTel wants to create an environment that values and more closely reflects the diversity of the communities we serve. Consequently, the Corporation has hiring targets for Aboriginal people, people with disabilities, visible minorities and women in non-traditional roles.
Engaged Employees	SaskTel is committed to its employees and takes a number of measures to ensure they are engaged. SaskTel's success in this area is measured by annual employee surveys and is also externally validated.

### 2003 People Results

SaskTel exceeded its 30% target of equity hires in 2003. This helps move the Corporation towards having a more representative workforce.

SaskTel's motto is "Our focus is our Customer, Our strength is our People." SaskTel demonstrates this philosophy in a number of ways. An independent human resources firm conducts an employee survey annually on SaskTel's behalf to show corporate strengths as well as opportunities for improvement. SaskTel's 2003 employee survey showed that 82% of SaskTel employees rate SaskTel as an above average place to work. This is 23% higher than the norm experienced by the 500 North American companies in the survey firm's database.

SaskTel's commitment to its employees has been validated externally. For the fourth consecutive year, SaskTel was recognized one of "Canada's Top 100 Employers," by Mediacorp Canada Inc. (as highlighted in *Maclean's Magazine*). As well, SaskTel made the *Globe and Mail's* 2004 list of "The Fifty Best Employers in Canada."

## PUBLIC POLICY

**Statement of Direction:** SaskTel provides reasonably and competitively priced communications products and services to the people and businesses of Saskatchewan, including affordable, universal access to basic telephone service on a province-wide basis. As a socially responsible corporation, SaskTel contributes to the social and economic well-being of the province through its skilled and diverse workforce; technical innovation and leadership; an advanced communications network; economic diversification and growth; support for community events and organizations; and environmental responsibility and stewardship.

Objective	Strategy
SaskTel is committed to Saskatchewan communities and is socially and environmentally responsible.	SaskTel undertook many initiatives in 2003 to help fulfill its public policy statement of direction. Significant examples are: expanding digital cellular service to cover 94% of the Saskatchewan population; expanding high speed internet access to cover 75% of the Saskatchewan population; donating \$1.7 million to non-profit and charitable organizations around the province; providing over 62,000 volunteer hours to community projects through the SaskTel Pioneers; spending approximately \$215 million on materials and services from Saskatchewan suppliers; and employing approximately 4,000 people in Saskatchewan. SaskTel's basic telephone service rates are among the lowest in the country even though Saskatchewan has a high proportion of CRTC defined high cost serving areas.

## management's discussion & analysis

### results of operations

## Results of Operations

### NET INCOME

#### Consolidated Net Income

(\$ millions)	2003	2002	Change	%
Operating Income:				
SaskTel Wireline	\$ 81.8	\$ 108.0	\$ (26.2)	(24.3)
SaskTel Wireless	28.1	29.8	(1.7)	(5.7)
DirectWest	1.7	1.6	0.1	6.2
Other	7.2	6.5	0.7	10.8
	<b>118.8</b>	145.9	(27.1)	(18.6)
Intercompany Eliminations	(6.0)	(6.4)	0.4	(6.3)
Income from operations	<b>112.8</b>	139.5	(26.7)	(19.1)
Other items	0.9	0.7	0.2	28.6
Interest and related costs	(9.2)	(33.7)	24.5	(72.7)
Net income before the following	<b>104.5</b>	106.5	(2.0)	(1.9)
Gain on sale of investments	0.1	0.0	0.1	100.0
Writedown of investments	(10.1)	(41.4)	31.3	(75.6)
Writedown of goodwill	(9.4)	0.0	(9.4)	100.0
Consolidated net income	<b>\$ 85.1</b>	\$ 65.1	\$ 20.0	30.7

The Corporation's consolidated income from operations decreased by 19.1% in 2003. Positive contributions to income from operations included increased revenues from cellular, internet and entertainment services, and from Navigata and SecurTek operations. Cost savings from the Operational Efficiency Program also improved income from operations. However, these positive contributions were more than offset by data and long distance revenue reductions, reduced pension plan income, increased salaries and benefits expense and higher operating costs for diversification and growth initiatives.

In 1999, the Corporation introduced an Operational Efficiency Program with a goal of achieving \$60 million in annualized savings by year end 2003. In 2003, the program contributed \$10 million of savings, and the Corporation reached its overall goal.

Interest and related costs are \$24.5 million lower than the prior year. This was primarily due to a foreign currency translation gain of \$22.9 million recognized in 2003 compared to a \$0.9 million gain in 2002, a result of the Corporation restating its long-term U.S. denominated debt to reflect the strengthened Canadian dollar. As well, interest on long-term debt decreased by \$1.6 million.

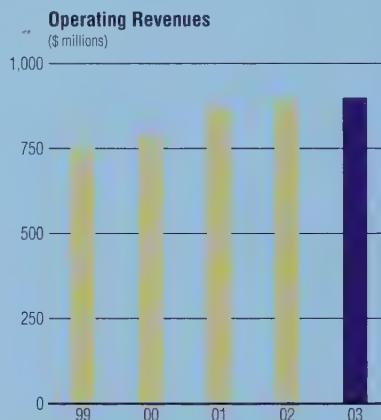
During 2003, Austar United issued rights to its shareholders to purchase additional shares in the company. SaskTel sold its portion of these rights for \$1.1 million, resulting in a \$0.1 million gain on sale of investments.

In 2003, the Corporation wrote down the book value of its Persona shares by \$6.4 million, its TappedInfo investment by \$2.8 million and its Soft Tracks investment by \$0.9 million for a total writedown of \$10.1 million. In 2002, the Corporation wrote down the book value of its Austar United shares by \$40.4 million and its investment in Soft Tracks by \$0.9 million

The Corporation also wrote down goodwill of \$9.4 million and other assets of \$1.0 million in 2003 related to its investment in Retx.

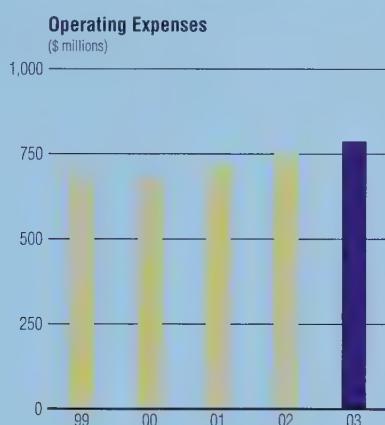
### OPERATING REVENUES

Operating revenues for 2003 increased to \$899.4 million, up \$5.9 million (0.7%) from \$893.5 million in 2002. Increases in cellular, internet, entertainment services and directory revenues contributed significantly to this increase as did revenue increases in diversified operations such as Navigata and SecurTek. These increases were partially offset by reduced long distance and data revenues, both influenced by recent CRTC directives and competitive pressures.



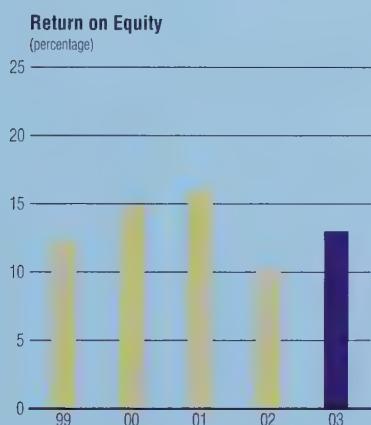
## **OPERATING EXPENSES**

Operating expenses for 2003 increased to \$786.6 million, up \$32.6 million (4.3%), from \$754.0 million in 2002. Increased expenditures in Navigata and SaskTel Wireless, salaries and benefits, depreciation and amortization, and reduced pension income were only partially offset by reduced contribution and carrier costs, corporate capital taxes and cost savings from the Operational Efficiency Program.



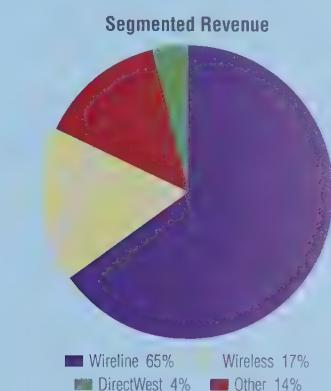
## **RETURN ON EQUITY**

	2003	2002	Change	%
Return on equity	13.0%	10.1%	2.9	28.7



## **REVIEW BY SEGMENT**

The Corporation has three significant business segments that are currently the foundation of its operations. These are SaskTel Wireline, SaskTel Wireless and DirectWest. All other business units, subsidiaries and investments, described in the Overview and Strategic Focus section on page 18 to 20 of this Management's Discussion and Analysis, are currently part of SaskTel's investment portfolio that is building additional value for the Corporation. The following diagram summarizes the Corporation's revenues by segment.



### **SaskTel Wireline**

[www.sasktel.com](http://www.sasktel.com)

In 2003, SaskTel Wireline generated 65% of the Corporation's total operating revenues.

### **Operating Revenues**

(\$ millions)	2003	2002	Change	%
Local Service	\$ 324.3	\$ 323.9	\$ 0.4	0.1
Long Distance Service	125.4	145.6	(20.2)	(13.9)
Data, Internet and entertainment services	147.2	138.0	9.2	6.7
Other	50.8	54.5	(3.7)	(6.8)
Total	\$ 647.7	\$ 662.0	\$ (14.3)	(2.2)

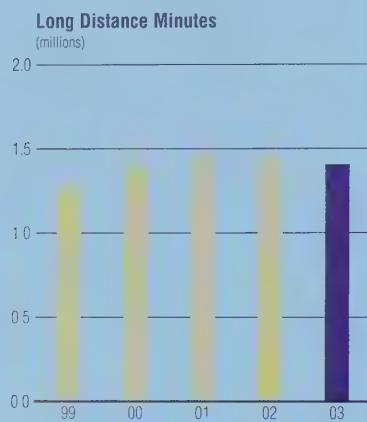
#### Local Service

Increased demand and a rate increase for consumer features such as *SmartTouch™* services and a rate increase for service connection charges contributed \$4.6 million in additional local service revenue in 2003. These revenue increases were offset by decreases in other categories of local service, primarily in telephone set rentals due to reduced demand, and in local access charges due to a decline in network accesses.

## management's discussion & analysis results of operations

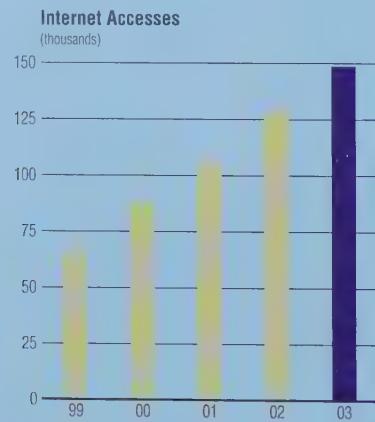
### Long Distance

The reduction in overall long distance revenues is due to the impacts of CRTC directives and to increased competitive pressure. CRTC directives reduced direct connect and access tandem rates charged to competitors for connecting to SaskTel's network and influenced corresponding rate reductions among Incumbent Local Exchange Carriers (ILECs). Increased competitive activity influenced a reduction in long distance minutes as well as a significant re-price in the business long distance market. SaskTel's total long distance minutes declined 2.2% in 2003; however, SaskTel Wireline has retained approximately 89% of the long distance lines in Saskatchewan.



### Data, Internet and Entertainment Services

Internet revenues increased \$6.0 million in 2003 as SaskTel expanded its high speed internet service to 114 additional Saskatchewan communities, and the average number of accesses increased 29%. At year end, 237 Saskatchewan communities had access to SaskTel High Speed Internet Service. The Corporation remains Saskatchewan's number one internet service provider with high speed internet access currently available to 75% of the population, and an overall internet market share of approximately 70%.



SaskTel Max Interactive Services revenue grew \$5.9 million during the year due entirely to customer growth. At year end, there were over 14,000 Max Service customers compared to approximately 3,000 at the end of 2002. Max Service delivers digital video signals, including network and specialty television channels, and "always on" high speed internet. This interactive home entertainment and information service allows customers the choice of accessing everything through one television, to split between two TVs, or between TVs and a personal computer.

Data revenues declined by \$2.6 million in 2003, despite increased competitive network revenues from the LANspan IP service. An interim CRTC decision that resulted in the introduction of Competitor Digital Network Access as a new essential service to competitors, priced at cost plus a minimal markup and retroactive to June 2002, reduced data access revenues by \$7.0 million.

### Other

Other revenues decreased \$3.7 million during the year. A \$1.3 million increase in Managed Information Services revenues was more than offset by reduced installation revenues, sales of private branch exchanges, interest on subscriber accounts, and terminal maintenance.

### **Operating Expenses**

(\$ millions)	2003	2002	Change	%
Operating expenses	<b>\$ 432.1</b>	\$ 422.3	\$ 9.8	2.3
Contribution and carrier costs	<b>12.7</b>	16.8	(4.1)	(24.4)
Depreciation and amortization	<b>121.0</b>	114.9	6.1	5.3
Total	<b>\$ 565.8</b>	\$ 554.0	\$ 11.8	2.1

### Operating Expenses

In 2003, the Operational Efficiency Program contributed \$10 million of ongoing expense reductions. The Corporation also realized significant savings in corporate capital tax and bad debt expense. These savings, however, were more than offset by increased salaries, pension and benefits and by other general operating expense increases. Salaries increased \$13.5 million from 2002 primarily driven by contract and progression increases as well as by reallocation of resources from capital projects to ongoing activities. Reduced income from the defined benefit pension plan, due to market declines, contributed to a \$5.8 million increase in pension and benefits expense.

### Contribution and Carrier Costs

Carrier costs decreased by \$3.1 million in 2003 mainly as a result of CRTC directives that influenced rate reductions for access tandem and direct connect rates for payments made to other Incumbent Local Exchange Carriers (ILECs). Contribution costs declined by \$1.0 million in 2003 due to a lower contribution requirement to the national fund established to subsidize high cost serving areas.

#### Depreciation and Amortization

Depreciation and amortization expense was higher due to an increase in property plant and equipment, driven mainly by multimedia expansion programs such as Max Interactive Services and high speed internet service.

#### **SaskTel Wireless (SaskTel Mobility)**

[www.sasktelmobility.com](http://www.sasktelmobility.com)

SaskTel Mobility's core business is centred around the cellular voice network, with an increasing emphasis on wireless data applications. At year end, SaskTel Mobility's digital and analog cellular networks spanned approximately 94% of the Saskatchewan population. Through its partnership with a local independent retail distribution network, SaskTel Mobility offers sales and service for its products and services in approximately 100 dealer locations in Saskatchewan.

#### **Operating Revenues**

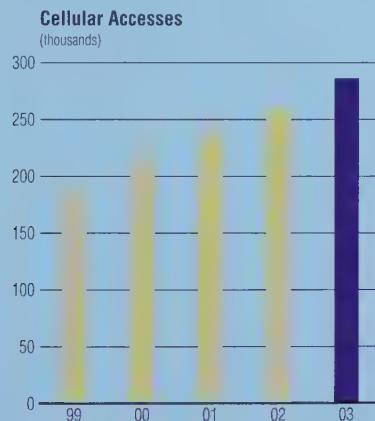
(\$ millions)	2003	2002	Change	%
Total	<b>\$ 167.2</b>	\$ 159.5	\$ 7.7	4.8

SaskTel Mobility's revenue growth is attributable to increased cellular and diversified data revenues.

Cellular revenue growth is mainly due to a 10.5% increase in the number of cellular customers from 259,071 in 2002 to 286,250 in 2003, which resulted in increased network access and roaming revenues. In addition, system access fee revenues increased in 2003 over 2002.

Diversified data revenue growth is mainly due to growth in SaskTel Mobility's *LoadTrak™* solution and superior provincial digital coverage.

Net cellular customer additions were 27,179 in 2003, a 46.3% increase in additions from the previous year. The increase in net additions is attributable to new rate plans implemented in the fall of 2002, improved coverage and the introduction of a broader range of handsets to better meet customer needs.



#### **Operating Expenses**

(\$ millions)	2003	2002	Change	%
Total	<b>\$ 139.1</b>	\$ 129.7	\$ 9.4	7%

Operating and maintenance expenses were \$7.6 million higher year over year mainly due to increased expenses to acquire and support a growing customer base. Depreciation expense was \$1.8 million higher than the prior year due to increased property plant and equipment, driven by cellular expansion programs.

#### **DirectWest**

[www.directwest.com](http://www.directwest.com)

DirectWest continues to provide consistent operating results.

#### **Operating Revenues**

(\$ millions)	2003	2002	Change
Total	<b>\$ 34.7</b>	\$ 33.7	\$ 1.0

Revenues continued to grow in 2003 as the core direct business maintained its focus on product enhancement and high quality. Internet traffic continued to grow at www.mysask.com internet portal continued to set usage records; however, market pressures prevented internet revenue from growing over the prior year. Agricultural services continued to show strong revenue growth as *The Ag Daily* magazine expanded into Saskatchewan and Alberta, and increased its publication frequency.

#### **Operating Expenses**

(\$ millions)	2003	2002	Change
Total	<b>\$ 33.0</b>	\$ 32.1	\$ 0.9

Although DirectWest continued to make additional expenditures to support revenue growth, generate new sources of revenue and respond to increased competition, the company successfully minimized the increase in overall expenses through continued focus on improving operational efficiency.

## management's discussion & analysis

### liquidity and capital resources

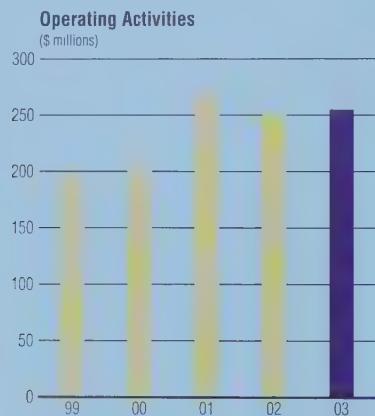
#### Liquidity and Capital Resources

Saskatchewan Telecommunications Holding Corporation (SaskTel or the Corporation) was able to fund all its capital expenditures, acquisitions, debt obligations and dividend requirements with cash generated from operations.

#### CASH PROVIDED BY OPERATING ACTIVITIES

(\$ millions)	2003	2002	Change	%
Cash provided by operating activities	\$ 255.2	\$ 251.1	\$ 4.1	1.6

Net income was \$19.9 million higher than 2002. However, a portion of this increase did not generate cash. Some of the more significant non-cash items in 2003 include depreciation and amortization, non-cash foreign currency gains on U.S. dollar denominated long-term debt, writedown of investments and writedown of goodwill. For details on items not affecting cash from operations, see Note 14 to the consolidated financial statements.



#### CASH PROVIDED (USED) BY FINANCING ACTIVITIES

(\$ millions)	2003	2002	Change	%
Cash used in financing activities	\$ (64.5)	\$ (81.0)	\$ 16.5	(20.4)

In 2003, cash used in financing activities was \$16.5 million lower than in 2002. Debt repayment activities required net cash of \$13.6 million in 2003, compared to \$7.1 million in 2002. This increase in cash requirements was more than offset by \$7.7 million of long-term debt proceeds received in 2003 and reduced dividends paid to Crown Investments Corporation of Saskatchewan (CIC) in 2003. SaskTel paid \$58.6 million in dividends to CIC in 2003 compared to \$73.9 million in 2002. During the last five years, the Corporation paid a total of \$360.2 million in dividends while maintaining a debt ratio below 40%.

	2003	2002	Change	%
Debt ratio	38.4%	40.0%	(1.6)	(4.0)

The Corporation's debt ratio continued to decrease in 2003 as it continued to self-finance its capital and dividend requirements. The overall level of debt decreased by \$31.2 million primarily due to the revaluation of foreign currency denominated debt. Retained earnings increased \$8.5 million after recording net income of \$85.1 million and dividends declared of \$76.6 million.

#### CASH PROVIDED (USED) BY INVESTING ACTIVITIES

(\$ millions)	2003	2002	Change	%
Cash used in investing activities	\$ (134.5)	\$ (177.8)	\$ 43.3	(24.4)

In 2003, cash used in investing activities was \$43.3 million lower than in 2002. The Corporation spent less on capital purchases, business acquisitions, and investments during 2003.

#### CAPITAL SPENDING

The Corporation's net capital spending in 2003 was \$127.7 million, compared to \$165.0 million in 2002. During 2003, SaskTel focused on growth and diversification initiatives, such as *Max Interactive Services* and multimedia development.

The Corporation's 2003 capital spending includes the purchase of the Saskatoon Square building. SaskTel acquired 70% ownership of this property with three other business partners each holding a 10% interest. SaskTel's portion of the \$10.5 million total consideration for this property was 100% debt financed.

#### SaskTel Wireline

SaskTel Wireline invested approximately \$61.0 million in growth and diversification initiatives in 2003 compared to \$99.7 million in 2002. Expenditures to sustain capital assets also decreased to \$26.9 million in 2003 from \$28.2 million in 2002.

Growth and diversification initiatives in 2003 included:

- \$11.2 million on the new Voice over Internet Protocol (VoIP) initiative. VoIP allows a customer to make telephone calls and send facsimiles over the internet.
- \$6.5 million to further develop *Max Interactive Services*. This development allowed SaskTel Wireline to successfully launch *Max Front Row Service*, its video-on-demand service, in the fourth quarter and to grow its customer base.
- \$6.5 million on the high speed internet service initiative to introduce this service to 114 more rural communities in Saskatchewan.
- \$1.4 million to extend the reach of *LANspan IP™* service to additional locations throughout the province in support of *CommunityNet*. *CommunityNet* is a joint initiative between the Corporation, the Provincial Government and Saskatchewan Communications Network (SCN) to provide province-wide data connectivity for the public sector.

Significant requirements to sustain capital assets in 2003 included:

- \$11.1 million for systems infrastructure and desktop computer provisioning initiatives that provide for the replacement and establishment of new data and communications infrastructure required for future growth as well as sustaining the current information technology infrastructure.
- \$6.6 million for network infrastructure to ensure the Corporation continues to meet customer demand without compromising quality of service.

### **SaskTel Wireless (SaskTel Mobility)**

Capital expenditures totalled \$31.4 million in 2003, an increase of \$2.3 million over 2002. The majority of this investment was used for province-wide deployment of a next generation digital packet data network known as 1xRTT, coverage improvements and completion of the digital cellular network expansion.

SaskTel Mobility added 63 new cellular sites to its digital cellular network in 2003, eight of them providing cellular coverage to areas that did not previously have cellular coverage. With these additional sites, SaskTel Mobility has increased call capacity and improved digital service coverage and now provides digital cellular service to greater than 94% of Saskatchewan's population.

### **BUSINESSES ACQUIRED**

During 2003, the Corporation increased its equity position in Retx to 91.7% for total consideration of \$2.0 million.

Over the year, the Corporation made an additional investment of \$0.4 million in BWI, increasing its ownership to 94.3%.

### **LONG-TERM INVESTMENTS**

During the year the Corporation purchased additional shares of TappedInto for \$1.5 million. As well, in 2003 TappedInto merged its operations with Toronto-based Streamlogics Corporation (Streamlogics). This transaction resulted in the Corporation retaining a 37.4% equity interest in TappedInto, which includes, on a consolidated basis, the operations of both TappedInto and Streamlogics.

In February 2003, the Corporation made an additional investment of \$0.5 million in Soft Tracks, increasing its ownership to 20.5%.

### **DEBT INSTRUMENTS**

SaskTel's debt portfolio consists of long-term and short-term debt. Long-term debt is issued through, and guaranteed by, the Province of Saskatchewan. Short-term debt currently consists of bank facilities. Usually long-term debt is at fixed interest rates and short-term debt is at market rates.

The average interest rate on SaskTel's fixed rate debt was approximately 8.0% in 2003 compared to 8.2% in 2002.

The interest rate on the Corporation's debt depends on the credit rating of the Province of Saskatchewan, which issues debt on the Corporation's behalf. The following table lists the credit ratings of the Province.

	S&P	DBRS	Moody's
Long-term debt	A+	R-1 (low)	A/
Short-term liabilities	A-	A	Not R

### **ACCESS TO CAPITAL**

The primary uses of cash in 2004 will be capital expenditure diversification initiatives, dividend payments and the retirement of debt.

The 2004 plan assumes that funding of capital expenditures, diversification initiatives and dividend payments will be provided by operations and cash balances on hand at the end of the year. Debt refinancing will also be funded through operations and cash on hand. Any additional funding required will be accessed through short-term notes issued through the Province of Saskatchewan.

Credit facilities consist of up to \$125 million in combined lines of credit with financial institutions and advances from the Province of Saskatchewan. These facilities are not currently being used except for normal operating overdrafts.

Besides this credit facility, the Corporation has authority to issue up to \$1.3 billion in combined short-term and long-term debt. At December 31, 2003, total outstanding debt was \$442.6 million compared to \$473.9 million in 2002.

### **USE OF FINANCIAL INSTRUMENTS**

SaskTel uses derivative instruments to manage exposure to interest rate risk and foreign exchange risk. Derivative instruments are not used to speculate. Because derivative instruments are related to specific financial exposures, there is no significant liquidity risk. There were no derivative instruments outstanding at December 31, 2003.

## **Significant Accounting Policies**

SaskTel's consolidated financial statements are prepared according to Canadian Generally Accepted Accounting Principles (GAAP), and in conformity with prevailing practices in the Canadian communications industry. Please refer to Note 2 of the consolidated financial statements for information about the accounting principles the Corporation uses in preparing its financial statements.

## **Key Accounting Estimates and Assumptions**

In preparing the consolidated financial statements, management is required to make estimates and assumptions in determining transaction amounts and financial statement balances and is required to constantly evaluate the estimates and assumptions used. Management bases these estimates and assumptions on past experience and other factors considered reasonable under the circumstances. Because of the judgment and uncertainty involved, the amounts currently reported in the financial statements could, in the future, prove to be inaccurate.

### **EMPLOYEE DEFINED BENEFIT PLANS**

SaskTel maintains defined benefit plans that provide pension, other retirement and post-employment benefits for most of its employees. The primary plan is the SaskTel defined benefit pension plan, which has been closed to membership since 1977. Reported financial statement amounts relating to these benefits are determined using actuarial calculations that are based on several assumptions.

The Corporation performs a valuation at least every three years to determine the actuarial present value of the accrued pension and other retirement benefits. The valuation uses management's assumptions for the discount rate, expected long-term rate of return on plan assets, rate of compensation increase and expected average remaining years of service of employees. Management believes these assumptions are appropriate; however, differences in actual results or changes in assumptions could affect employee benefit obligations and future credit (income) or expense. SaskTel accounts for differences between actual and assumed results by recognizing differences in benefit obligations and plan performance over the working lives of the employees who benefit from the plans.

The two most significant assumptions used to calculate the net employee benefit plans' credit or expense are the discount rate and the expected long-term rate of return on plan assets.

#### **Discount rate**

The discount rate is the interest rate used to determine the present value of the future cash flows that the Corporation expects will be required to settle employee benefit obligations. It is usually based on the yield on long-term high-quality corporate fixed-income investments.

The Corporation determines the appropriate discount rate at the end of every year. The Corporation's discount rate was 6.2% at December 31, 2003, unchanged from 2002. Changes in the discount rate do not have a significant effect on the Corporation's earnings. They do, however, have a significant effect on the projected benefit obligation. A lower discount rate results in a higher obligation, which could at some point require additional contributions to the plan.

#### **Expected long-term rate of return**

In 2003, SaskTel assumed an expected long-term rate of return on plan assets of 7.25% and this rate is not currently anticipated to change in 2004.

### **ALLOWANCES FOR DOUBTFUL ACCOUNTS**

The Corporation maintains allowances for losses expected to result from customers who do not make their required payments. The Corporation estimates the allowances based on the likelihood of collecting accounts receivable based on past experience, taking into account current and expected collection trends. If economic conditions or specific industry trends become worse than anticipated, the Corporation will increase its allowances for doubtful accounts by recording an additional expense.

### **DEPRECIATION AND AMORTIZATION**

Depreciation and amortization is an estimate to allocate the cost of an asset over its estimated useful life on a systematic and rational basis. Estimating the appropriate useful lives of assets requires significant judgment and is generally based on past experience with similar assets, taking into account expected technological or other changes. If technological changes happen more quickly or in a different way than anticipated, SaskTel management may have to shorten an asset's estimated useful life. This could result in a higher amortization expense in future periods or an impairment charge to reflect the write down in value of the asset.

### **GOODWILL AND INTANGIBLE ASSETS**

SaskTel management assesses the impairment of goodwill and intangible assets with indefinite lives each year and when events or changes in circumstances indicate that they might be impaired. SaskTel usually measures impairment using a projected discounted cash flow method. If the asset's carrying value is more than its fair value, SaskTel records the difference as an impairment charge. The estimates of future cash flows and fair value reflect management's best estimates, but they include uncertainties that cannot be controlled. As a result, the amounts reported for these items could change if assumptions are different or if conditions vary in the future. The Corporation cannot predict whether an event that triggers an impairment will occur, when it will occur or how it will affect the asset values reported.

## **CONTINGENCIES**

The Corporation becomes involved in various litigation and regulatory matters as a regular part of its business. Pending litigation, regulatory initiatives or regulatory proceedings represent potential financial loss to SaskTel. The Corporation will accrue a potential loss if it is probable and it can reasonably be estimated. This decision is based on information available at the time.

## **New Accounting Standards in 2003**

In 2003, the Corporation adopted several new accounting standards as recommended by the Canadian Institute of Chartered Accountants (CICA), the organization responsible for establishing accounting standards in Canada. The standards and their impact on SaskTel are described below.

### **DISCLOSURE OF GUARANTEES**

Effective January 1, 2003, the Corporation adopted Accounting Guideline 14, *Disclosure of Guarantees*. This guideline provides assistance for identifying guarantees and requires a guarantor to disclose the significant details of guarantees that have been given regardless of whether it will have to make payments under the guarantees. Adopting this guideline did not have an impact on the Corporation's consolidated financial statements.

### **ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT AND DISPOSAL ACTIVITIES**

The Corporation adopted Emerging Issues Committee abstract 135 (EIC 135), *Accounting for Costs Associated with Exit and Disposal Activities*. The Corporation will now recognize a liability for exit and disposal costs related to a restructuring only when the liability is incurred rather than when management commits to an exit plan. This means that certain costs that were recognized as liabilities at a plan commitment date under previous guidance will now be recognized at a later date. Adopting this guideline did not have an impact on the Corporation's consolidated financial statements as the Corporation did not have any exit and disposal activities during the year.

### **OPERATING LEASES ACQUIRED IN EITHER AN ASSET ACQUISITION OR A BUSINESS COMBINATION**

The Corporation adopted EIC abstract 140, *Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination*. EIC 140 requires companies that acquire real estate in either an asset acquisition or a business combination to allocate a portion of the purchase price to operating leases in existence at the date of acquisition. The purchase price is allocated to these assets based on their fair value at the date of acquisition. SaskTel recognized \$0.7 million as its proportionate share for parkade leases in the purchase of the Saskatoon Square in 2003.

## **Future Accounting Changes**

Several new and potential accounting standards have either been approved for application in the future or are in draft form awaiting approval by the CICA Accounting Standards Board (AcSB) or the Emerging Issues Committee (EIC). Several approved and proposed standards, and the impact to the Corporation of adopting these standards, are described below. The Corporation has not yet fully considered whether there will be an effect on its consolidated financial statements for any new standards that are not mentioned; however, management does not anticipate a material impact.

### **IMPAIRMENT OF LONG-LIVED ASSETS**

The CICA recently issued CICA Handbook section 3063, *Impairment of Long-lived Assets*. It provides guidance on recognizing, measuring and disclosing the impairment of long-lived assets and replaces the writedown provisions in section 3061 of the CICA Handbook, *Property, Plant and Equipment*. The determination of when to recognize an impairment loss of a long-lived asset to be held and used is made when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the amount over its fair value. This section comes into effect on January 1, 2004. The Corporation will implement this standard in 2004, and is currently assessing the impact on its consolidated financial statements.

### **DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS**

CICA Handbook section 3475, *Disposal of Long-lived Assets and Discontinued Operations* provides guidance on recognizing, measuring, presenting and disclosing long-lived assets to be disposed of. It replaces the disposal provisions in section 3061, *Property, Plant and Equipment*, and section 3475, *Discontinued Operations*. The new section provides criteria for classifying assets as held for sale. It requires an asset classified as held for sale to be measured at the lower of its carrying value amount or fair value less disposal costs. It also provides criteria for classifying a disposal as a discontinued operation and specifies the presentation of and disclosures for discontinued operations and other disposals of long-lived assets. The Corporation will implement this standard in 2004, and is currently assessing the impact on its consolidated financial statements.

### **REVENUE RECOGNITION**

EIC abstract 141, *Revenue Recognition*, incorporates the principles and summarizes the Security Exchange Commission's guidance on *Revenue Recognition in Financial Statements*. The guidance may be applied prospectively, and should be applied to sales transactions recognized in the first interim or annual period beginning after December 17, 2003. The Corporation will implement this standard in 2004, and is currently assessing the impact on its consolidated financial statements.

### **REVENUE ARRANGEMENTS WITH MULTIPLE DELIVERABLES**

EIC abstract 142, *Revenue Arrangements with Multiple Deliverables*, addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue generating activities. The guidance may be applied prospectively, and should be applied to revenue arrangements with multiple deliverables entered into in the first interim period or annual fiscal period beginning after December 17, 2003. The Corporation will implement this standard in 2004, and is currently assessing the impact on its consolidated financial statements.

## **2004 Outlook**

### **THE COMMUNICATIONS INDUSTRY**

The Canadian communications industry has been slowly recovering during 2003. After almost two years of significant layoffs, investment losses, debt write-downs, debt restructuring, labour difficulties and bankruptcies, the industry is still attempting to cut costs and find new revenue streams to recuperate.

For incumbent telephone companies (ILECs), such as Bell, Telus and Aliant, revenue growth remains weak and will follow economic growth recovery. The Royal Bank of Canada (RBC) anticipates the compounded annual growth rate (CAGR) for Canadian communication revenues will be 4.4% from 2003 to 2005. This is a blended rate incorporating the continued decline in long distance, local access and some data products and the growth of wireless and broadband products. Stock price recovery, aided by general strength in the markets, reflects a slow recovery in operating performance. Telecommunications companies are expected to continue focusing on cost reduction initiatives to offset increased operating and pension costs.

As well, to combat the emerging view of telecommunications as a commodity rather than a service, both incumbents and market entrants will continue to differentiate their offerings. Some of the predominant differentiation strategies are service bundles, customer convenience options and product enhancements.

Service bundles are gaining popularity throughout North America. These are typically achieved through marketing pacts among telecommunications and broadcast providers. For cable companies, deploying Internet Protocol (IP) voice services over the cable network is emerging as the preferred way to achieve service bundles. A number of Canadian ILECs, including SaskTel, Telus and MTS, are delivering IP service bundles via Digital Subscriber Line technology.

Customer convenience options are value-add components provided as service enhancements at no additional charge (for example, Internet Service Providers implementing spam filtering and virus detection). Product enhancements are typically improvements to existing functionality also provided at no additional charge (for example, Internet Service Providers increasing upload and download speeds and mailbox capacity). The challenge is for service providers to deliver value-add options and product enhancements cost effectively, without sacrificing profitability. In previous years these types of improvements were considered chargeable options; however, with the drive for differentiation they are now standard service improvements.

As technology evolves from Time Division Multiplexing (TDM) to Internet Protocol (IP) the telecom industry is in a transition period similar to the movement from analog to digital. Internet Protocol is a disruptive technology that is and will be used for much more than internet transport. The growing proliferation of IP-based products and services including voice over IP and

broadcast over IP, will continue to reduce barriers to competitive entry and drive the cannibalization of traditional revenue streams for both telecommunications and broadcast suppliers. Physical geographic presence in a market is longer a requirement. This provides both challenges and opportunities for incumbents and market entrants who choose to expand reach.

### **FINANCIAL AND GROWTH OUTLOOK**

SaskTel is facing many challenges. Some of these have been encountered by SaskTel before, such as the impacts of a sluggish economy, the difficulties associated with a small market where the population is not growing and demographics are changing, and the constant obstacles presented by an ever-changing and increasingly competitive environment. Challenges to SaskTel are the significant financial and challenges posed by recent and pending regulation. Market challenges related to the defined benefit plan, and the growing proliferation of IP-based products and services.

To succeed in this challenging environment, the Corporation will maintain the three key strategies and areas of concentration discussed in the overview section of this Management's Discussion and Analysis: Focus on the Customer, Operational Efficiency, and Growth and Diversification.

SaskTel will concentrate on cost containment in 2004. The Corporation will evaluate operational and structural options to further decrease costs within the traditional business with the goal of removing \$66 million in annual ongoing costs by 2006. This will help the Corporation address the challenges of declining long distance revenues, an increasing cost base, the changing competitive landscape, CRTC regulation and evolving technologies. Although the Corporation is committed to remove operating expenditures from its wireline business in 2004, the Corporation's 2004 net income is expected to be lower than prior years due to reduced revenue in SaskTel Wireline, increased pension expenses, and one-time restructuring costs. Return on equity and dividends declared will be correspondingly lower.

SaskTel will continue to provide Saskatchewan people with the latest technology and quality of service, while using its experiences at home to seize opportunities in new markets. The Corporation's growth strategy will focus on the areas of providing new products in existing markets and providing existing products in new markets.

For 2004 and beyond, SaskTel's growth initiatives will centre on:

- Enabling existing business units to achieve greater success in their markets.
- Pursuing service bundling opportunities.
- Strengthening wireless network superiority and growth in Saskatchewan, and exponentially growing diversified wireless services.
- Finding opportunities to deliver core services outside of the Saskatchewan marketplace.

## management's discussion & analysis 2004 outlook

SaskTel expects over 30% of its revenues will be from diversified operations in 2004 and anticipates positive net earnings from its diversified investment portfolio. Therefore, it is important for all business units and subsidiaries to continue to focus on growth.

SaskTel Mobility ([www.sasktelmobility.com](http://www.sasktelmobility.com)) continues to operate in an intensely competitive market while the demand for wireless services continues to show strong growth. The voice cellular market is in the maturity phase and, like the other players in the industry, the company must focus on profitable customer growth. In 2004, besides focusing on profitable customer growth, SaskTel Mobility will continue to emphasize growth in wireless data and diversified services such as the *LoadTrak* service. The company will pursue diversified growth opportunities in Saskatchewan and selectively outside the province.

In 2004, SaskTel Mobility expects to invest an additional \$30 million in its network to provide customers with the most extensive voice and data coverage and advanced networks in Saskatchewan. SaskTel Mobility is well-positioned to capture a majority of the market growth due its digital network quality and coverage, competitive rate plans, strong customer service and broad distribution network. Despite strong competition in the wireless market, SaskTel Mobility expects to remain the market leader in the province.

DirectWest ([www.directwest.com](http://www.directwest.com)) holds a 93% *Yellow Pages*™ listings market share despite facing competition in all markets. While DirectWest has been successful in the competitive market, the directory competitors continue to get stronger as they refine their marketing strategies and develop uniquely scoped telephone directories. A large international directory competitor is entering the Saskatchewan market in 2004 and will compete both in print and on the internet. Increased competition, a mature directory product, and Saskatchewan's struggling agricultural sector pose challenges, but DirectWest will face these challenges, move forward with modest future growth, and maintain their leadership position. DirectWest's internet business solutions continue to lead and innovate, and further growth is expected in this area. DirectWest's products in the agricultural market are also expected to show year over year growth. This growth may be limited by the current challenges in the agricultural sector. Overall, DirectWest expects moderate revenue growth and increased profitability.

SaskTel International ([www.sasktel-international.com](http://www.sasktel-international.com)) will continue to operate in a challenging and demanding environment where it is difficult to secure international projects due to low investor confidence and an unwillingness to move back into the technical sector. SaskTel International will persevere, pursuing consulting and large telecommunications projects worldwide that leverage SaskTel's core strengths of designing, building and operating advanced networks. These projects, like the one that SaskTel International completed in 2003 to rehabilitate the outside plant telephony network in parts of Tanzania, may lead to additional business in Africa, the Americas, Asia and around the world. SaskTel International will

continue to develop its software suite of products to meet changing business objectives and increase market share.

SecurTek ([www.securtek.net](http://www.securtek.net)) expects to see continued growth in 2004 through its existing retail dealer network. The majority of the marketing focus for 2004 will be on further developing its presence outside of Saskatchewan, where SecurTek will look to add new dealers and increase the strength of its existing dealers. In addition to its core business of providing security monitoring services in partnership with independent security alarm businesses, SecurTek will develop new value-added services that broaden its revenue base and reduce the impact of any potential downswing in the traditional security alarm industry.

Hospitality Network ([www.hospitalitynetwork.ca](http://www.hospitalitynetwork.ca)) will strive to improve its customer value proposition in the Canadian healthcare industry. In 2004, the company will continue to grow by pursuing opportunities in its three market segments: hospitals, long-term care, and point-of-sale terminals. Hospitality Network plans to grow through new product development initiatives and new customer acquisitions in its existing markets. Hospitality Network expects to maintain a dominant market share in Canadian acute care hospitals and is also strategically positioned to capture a leading market share in the long-term care segment of the Canadian healthcare market.

Navigata ([www.navigata.ca](http://www.navigata.ca)) expects to make considerable progress in four key areas during 2004: driving operating efficiencies; shedding unprofitable business; increasing product and service focus; and growing through targeted customer base expansion. During 2003, the company was awarded two contracts under Industry Canada's Broadband for Rural and Northern Development (BRAND) initiative, expanding telephone and high speed internet services to rural British Columbia. This initiative will drive growth on Navigata's current and planned B.C. infrastructure in 2004, contributing to the B.C. Provincial and Federal governments' Digital Divide initiative. The company plans to introduce new and innovative residential service products early in 2004. As well, the company will launch Voice over Internet Protocol (VoIP) products in 2004 targeting the needs of medium-sized Canadian businesses.

## TARGETS FOR 2004

The following are the key assumptions for the 2004 financial and operational targets included in SaskTel's 2004 Balanced Scorecard:

- Overall revenue growth of 6% to 8% will be mainly from diversified operations while revenues from traditional sources will decline.
- There will be increased competition in all markets, which will negatively impact market share in most market segments.
- A \$30 million pension expense increase is estimated for 2004.
- Estimated restructuring costs of \$20 million are expected in 2004.
- The Corporation expects to spend approximately \$252 million on capital and external investments during 2004. No significant divestitures are anticipated.
- Dividends declared to the Crown Investments Corporation will be 90% of earnings.
- 2% Canadian inflation, a 6% interest rate and a foreign exchange rate of US \$0.74 are anticipated.

There is no assurance that these assumptions or the 2004 financial and operating targets will turn out to be accurate.

The following are the key components of SaskTel's 2004 Balanced Scorecard.

## FINANCIAL MANAGEMENT

**Statement of Direction:** SaskTel will continue to create value for its shareholders. This will be accomplished through growth and improved operational efficiencies in all subsidiaries.

Objective	Measure	Results	
		2004 Target	2003 Actual
Provide a positive return to shareholder.	<u>Consolidated Net Income</u> <i>Net income is the amount remaining when all expenses incurred and accrued during an accounting period are deducted from all revenues received and accrued during that same period. Consolidated net income is the accumulated net income of SaskTel and its subsidiaries after adjusting for inter-company transactions.</i> <u>Return on Equity</u> <i>Net income expressed as a percentage of average total equity.</i> <u>Dividends Declared</u> <i>The share of profits that will be paid to Crown Investments Corporation.</i>	\$40M to \$85M  6% to 13%  \$36M to \$77M	\$85.1M  13.0%  \$76.6M
Self-sustaining growth.	<u>Debt Ratio</u> <i>Long-term debt expressed as a percentage of total long-term debt and equity.</i>	39% to 45%	38.4%
Operational efficiency.	<u>Cumulative Expense Reductions in the Year</u> <i>The cumulative total of annualized sustainable savings achieved over the year under SaskTel's Operational Efficiency Program. Target is set to remove costs from traditional operations.</i>	\$18.7M	\$10.0M

### CUSTOMER

**Statement of Direction:** SaskTel earns customer loyalty by understanding and delivering what customers value. We place a high priority on establishing and maintaining mutually beneficial, long-term customer relationships that are managed on a corporate-wide level.

<b>Objective</b>	<b>Measure</b>	<b>Results</b>	
		<b>2004 Target</b>	<b>2003 Actual</b>
Understanding and delivering what customers value.	<u>Customer Survey Results</u> <i>Every month, SaskTel completes a random survey of its residential and business customers to assess their perceptions of SaskTel on dimensions important to them when making their telecommunications buying decisions. The Corporation also benchmarks these perceptions against its competitors and other companies. For these measurements, the Corporation uses a standard methodology of rating customers' agreement with a particular statement. The customer must rate SaskTel an eight or better on a 10-point scale for their answer to be considered agreement.</i> <p>Outstanding Customer Service – "SaskTel employees provide outstanding customer service."</p> <p>Easy to do Business With – "SaskTel is a company that is easy to do business with."</p> <p>SaskTel Provides Best Value – "When thinking of everything SaskTel provides, they provide the best value for my communications needs."</p>	71 to 74	72
Establishing and maintaining long-term customer relationships.	<u>Market Share</u> <i>SaskTel measures market share for each service based on the proportion of service units attributable to SaskTel in Saskatchewan.</i> <p>Long Distance</p> <p>Local Access</p> <p>Internet – Provincial Dial-up and High Speed</p> <p>Mobility</p> <p>Directory</p> <p>SecurTek</p>	86% to 89% 99% to 100% 71% to 73% 83% to 85% 90% to 94% 33% to 35%	89% 100% 70% 83% 94% 33%

## TECHNOLOGY

**Statement of Direction:** SaskTel will be an early adopter of advanced networks and information technologies to support business-driven initiatives to improve our financial performance, generate new growth and deliver excellent customer service. Our people will be recognized for their skill and knowledge in deploying an integrated multimedia network and in transforming our processes, the services we deliver, and our relationships with our customers and partners.

Objective	Measure	Results	
		2004 Target	2003 Actual
Increase Internet Protocol (IP) network reliability.	<u>Managed Service Provider</u> <i>These key indicators measure availability/reliability of the Internet Protocol (IP) core network. Indicators are based on server and network availability within and to/from the data centre, using unplanned outages as a percentage of total time available. The measure of success is availability of CommunityNet and/or the stand-alone data centre for SaskTel's major customers. LANspan IP service supports the CommunityNet Program by connecting educational institutions, health care facilities, government offices and private sector businesses.</i> LANspan IP Availability 10/100 Mbps Data Centre(s) availability		
Competitive high speed internet service provider.	% of Saskatchewan Population with Access to SaskTel's High Speed Internet Service	78%	

## GROWTH

**Statement of Direction:** SaskTel operates in a highly competitive and dynamic market in Saskatchewan. Accordingly, it continues to pursue opportunities without geographic limits to increase the scope or scale of its business ventures and generate ever-increasing revenues from non-traditional sources.

Objective	Strategy
Diversify SaskTel's business.	SaskTel is working to provide long-term value for its shareholder through growth and diversification. SaskTel expects positive net earnings from its external investments in 2004 and forecasts that 30% of its 2004 revenues will be generated from diversified operations.

## PEOPLE

**Statement of Direction:** SaskTel employees are a team of highly motivated individuals, diverse in our skills, experience and backgrounds. Together, we enjoy personal and corporate success.

Objective	Strategy
Representative Workforce	SaskTel wants to create an environment that values and more closely reflects the diversity of the communities we serve. In 2004, SaskTel will continue to move towards its long-term goal of having a representative workforce.
Engaged Employees	SaskTel will continue its strong commitment to its employees. SaskTel will act on any action items identified by the 2003 employee survey and will conduct another survey in 2004.

### **PUBLIC POLICY**

**Statement of Direction:** SaskTel provides reasonably and competitively priced communications products and services to the people and businesses of Saskatchewan, including affordable, universal access to basic telephone service on a province-wide basis. As a socially responsible corporation, SaskTel contributes to the social and economic well-being of the province through its skilled and diverse workforce; technical innovation and leadership; an advanced communications network; economic diversification and growth; support for community events and organizations; and environmental responsibility and stewardship.

<b>Objective</b>	<b>Strategy</b>
SaskTel is committed to Saskatchewan communities and is socially and environmentally responsible.	SaskTel will continue to provide affordable, accessible basic telephone service at rates comparable to those set by the CRTC in other jurisdictions across Canada. The Corporation will continue to fulfill its public policy statement of direction by further expanding high speed internet access to cover 78% of the Saskatchewan population; donating to non-profit and charitable organizations around the province; supplying volunteer hours to community projects through the SaskTel Pioneers; and spending money on materials and services from Saskatchewan suppliers. SaskTel will maintain its position as a company committed to Saskatchewan communities, maintaining customers' awareness of our community support. SaskTel will also continue to focus on being an environmentally friendly organization.

## Risk Assessment

SaskTel places significant emphasis on risk management, including regular reporting to senior management and the Audit Committee of the Board of Directors, and uses the internationally recognized risk management processes of identification, mitigation, transfer and assumption. The Corporation evaluates its exposures through a model that categorizes risk into four quadrants: Market & Social; Financial; Operational; and Legal. The following are the most important risks and uncertainties in these categories that could affect SaskTel's future performance.

### MARKET AND SOCIAL RISKS

#### Competition

SaskTel is a full-service communications provider operating in a fully competitive telecommunications marketplace and faces a myriad of competitors. In some cases, competitors focus on a narrow range of service or product suites offered by SaskTel, while other competitors are, or soon will be, competing with SaskTel for a broad range of products and services. Competitive activity and pressures are expected to increase, both from traditional competitors and new entrants to the markets where SaskTel operates; renewed competitive fervor is arising from competitors who have successfully restructured. The cable television companies are and will continue to be an aggressive competitive force in key internet, video, data, and voice markets. Additionally, new competitive forces may emerge as new technologies, products and services are developed to replace legacy technologies. Competition has adversely affected revenues and margins for major lines of business, particularly long distance, and could further impact these and other lines of business in the future as larger telecommunications and cable companies expand their markets.

SaskTel is constantly conducting due diligence on the changing marketplace and adjusting accordingly. The Corporation will continue to respond to these competitive pressures by focusing on building and improving customer relationships and loyalty, and providing exceptional customer service that differentiates SaskTel from its competitors. As well, SaskTel will grow and diversify its business portfolio to replace and improve revenue streams impacted by competition and other market and social pressures.

#### Economic Environment

Saskatchewan's overall economy and employment levels are predicted to be relatively robust over the planning horizon and should set the stage for SaskTel to succeed in delivering its business plan. However, should the provincial and national economies experience a downturn, SaskTel will experience a financial impact.

To overcome economic risk factors, SaskTel will focus on providing its services at a cost effective price. Additionally, the Corporation will place continued focus on growth opportunities.

SaskTel's first priority is to be the communications service provider of choice in Saskatchewan but will look for opportunities to bring profitable revenue streams back to the province. SaskTel expects future profits from these ventures to allow the Corporation to maintain high-quality communications products like digital cellular, wireless data and high-speed internet, and to continue its efforts towards connecting all services to as much of the province as possible.

#### Technology

The telecommunications industry is characterized by rapid technological change, evolving industry standards, changing customer needs, frequent new product introductions, and short product life cycles. These factors place the useful life of SaskTel's networks and assets at approximately 10 years. Conversely, as SaskTel updates its networks and assets, it must introduce new products, services and technologies, which increases increased technology risk. New technologies may become quickly obsolete and/or require more capital than anticipated. Additional investments are sometimes required before new technologies prove to be commercially viable.

SaskTel evaluates capital spending on new technologies, both existing and future technologies in order to mitigate risks associated with stranded investment in existing assets. SaskTel will continue to anticipate and respond to technological changes quickly and efficiently and will balance the risk of prematurely adopting new technologies with those of failing to keep up with the market with new products and services. The Corporation will continue to be an early adopter of advanced telecommunications and information technologies.

#### Human Resources

SaskTel's strength is in its people. Its employees are a diverse group of highly motivated individuals, diverse in skills and backgrounds. However, a labour shortage is projected for Saskatchewan over the long term and SaskTel is challenged to attract, retain, and develop human resources, particularly with key technical and business skills. Additionally, the Corporation's collective bargaining agreement, covering approximately 3,000 employees, expires at the end of March, 2004. Difficulties in renegotiations, although not anticipated, could impact business, operating results and financial condition.

The Corporation has a very strong tradition of creating an atmosphere where both SaskTel and its employees enjoy personal and corporate success; evidence to support this is that SaskTel has been listed as one of "Canada's Top 100 Employers" for four years in a row. Maintaining this atmosphere will help the Corporation attract, retain and provide satisfaction for appropriately skilled individuals. SaskTel will emphasize retraining existing personnel in new technologies and services and will also develop specific programs to engage Saskatchewan's growing Aboriginal sector.

#### Regulatory

SaskTel operates in telecommunications and broadcast industries governed by the Canadian Radio-television and Telecommunications Commission (CRTC). As a result, SaskTel is affected by changes in policies and regulations coming from CRTC decisions.

The CRTC price cap decision, released in 2002, set the overall framework of telecommunications regulation until 2006. Under price cap regulation, SaskTel has limited flexibility for pricing of local residential and business services, and the opportunities for bundling services are constrained. The price cap plan also results in annual reductions to the amount of funding available to support high cost areas and to the prices paid by competitors for services obtained from SaskTel. In addition, this plan includes penalties for any ILEC failing to meet CRTC-mandated quality of service standards established for consumers and competitors.

Subsequent to the price cap decision, the CRTC has taken several steps to further encourage telecommunications competition, particularly within local markets. Such regulatory intervention is expected to continue until competitors obtain sizable market share, at least within Canada's major local markets. While these decisions increase the regulatory burden for SaskTel, the full effect of such determinations will not materialize until local competition unfolds in the Saskatchewan marketplace.

In 2004 and beyond, a key issue for the industry will be the regulatory implications of introducing "next generation networks and services." While SaskTel and other players are rapidly moving toward providing innovative IP-based services to consumers, for the most part, regulatory and policy questions concerning the future competitive marketplace for these new communications and information services in Canada remain unanswered.

In 2003, Industry Canada and Canadian Heritage completed reviews of the current foreign investment restrictions in the telecommunications and broadcasting sectors and subsequently released conflicting recommendations on whether to modify the ownership rules. SaskTel, and its shareholder, the Government of Saskatchewan oppose any relaxation of the current legislation. Federal government adoption of new laws or regulations could have a material effect on SaskTel and the entire industry. At this time, it is unclear whether any action will be taken by the federal government.

#### FINANCIAL RISKS

##### Investments

Growth and diversification is key to SaskTel's overall strategy. Inherent in this strategy is the risk that one or more of these new services and ventures will fail and/or not generate the value originally anticipated.

A number of appropriate parameters and governance structures are in place to mitigate risk, including decision parameters to reflect country risk, currency risk, investment size, investment focus, rate of return expectations and overall business risk. As well, SaskTel's strategy is to use a portfolio approach to new initiatives with an overall caveat that a failure of the entire portfolio could not put the future of the Corporation at risk. If management subsequently discovers that a particular venture within the portfolio is not expected to generate the value originally anticipated and will not be profitable within three to five years from the beginning of operations, the Corporation will explore exit strategies. Management believes that the Corporation's growth and diversification strategy creates and increases value, and does not unduly increase the overall risk profile of the Corporation.

##### Pension Plan

The recent decline in capital markets, combined with historically low interest rates, has significantly reduced the surplus in the SaskTel Pension Plan (defined benefit) and the pension income to the Corporation. The Corporation has significantly mitigated overall pension plan risk in that the SaskTel Pension Plan has been closed to new membership since 1977; the majority of current employees are enrolled in a defined contribution plan. SaskTel is effectively managing its commitments to the defined benefit plan; however, increased future contributions to the plan, if the market does not generate sufficient growth within the plan, will have a material and negative effect on net earnings.

To minimize the long term impact, employer contributions have been increased to the maximum possible under the *Income Tax Act* and the asset mix has been changed to the optimal proportion of equities to bonds as concluded by an asset/liability study. Management closely monitors the plan status.

##### Cost Reduction

Negative impacts of regulatory decisions, renewed competitive pressures, pension contribution costs and other variables challenge the financial projections of the Corporation, particularly the traditional wireline operations. Consequently, a focus on cost reduction is important and an operational efficiency program has been established for the 2004 to 2008 planning cycle. SaskTel will face the challenges of meeting these targets while continuing to provide exceptional customer service and meeting the communications needs of the people of Saskatchewan.

Significant reductions have already been recognized in the current planning cycle. In 2000, the Corporation implemented a similar operational efficiency program and was successful in removing approximately \$60 million in annual operating costs from the legacy parts of the organization over three years.

## **OPERATIONAL RISKS**

### **Systems Security**

SaskTel processes a lot of electronic information including, but not limited to, customer, employee, operational, and competitive information. A significant investment in associated systems and networks is maintained to process, manage and store this information. SaskTel is conscious of the external threats to these assets which include system and network intrusions from external sources (hackers), denial of service (DoS) attacks, viruses and worms, as well as physical threats. The impacts of systems security failures include service interruption and access to and/or release of private information.

SaskTel has a comprehensive systems security program in place that involves identifying and classifying information with respect to its confidentiality, integrity and availability; identifying threats to information assets; and identifying the vulnerabilities of infrastructure. Controls and risk management activities include: data classification; vulnerability assessment; intrusion detection; patch management; defined information security architecture; corporate anti-virus system; training and awareness; policies, standards and procedures; and defined roles and responsibilities. The systems security program is constantly reviewed and updated.

### **System Failures**

SaskTel's switching and transport networks and its integrated packet network provide local, long distance and broadband services to residential and business customers in Saskatchewan. The confidence level in the networks is high, but the possibility of customer impacting failures cannot be ruled out. The major system failure risks include physical hardware damage, hardware failure and software failure.

Mitigation strategies implemented to address these risks include regular operational reviews, business continuity plans, pre-arranged disaster recovery support from vendors and site hardening of critical locations. Business continuity planning, in particular, is emphasized at SaskTel and an extensive array of advance arrangements and procedures are in place. Complementary to these plans are disaster recovery plans specific to the Corporation's information technology division.

### **Physical Damage**

SaskTel maintains a high level of investment in property, plant and equipment in order to serve its customers. These assets are in many locations, including over 1,400 in the province of Saskatchewan alone. This creates exposure to physical damage from varied sources and, if realized, could cause impact to the Corporation in the form of reduced revenues, increased expenses and impaired asset values.

SaskTel uses loss prevention and loss reduction techniques to manage the corporate exposure to physical damage. Loss prevention includes a stringent preventive maintenance program and regular inspections by independent prevention engineers. Loss reduction includes physical hardening at major switching centers and signi cantly increasing the use of automatic sprinklers and fire detection systems. A comprehensive insurance program is in place to cover physical loss and resultant business interruption.

## **LEGAL LIABILITY RISKS**

SaskTel provides a wide range of services in a complex environment, multiprovincial and multinational. The Corporation is closely watched in terms of regulatory scrutiny because it interacts with thousands of people on a daily basis. Its assets are numerous and visible. As a telecommunications corporation operating in similar environments around the world, the Corporation is exposed to various aspects of legal risk, including contractual, professional, statutory and third party liability.

Although the legal risk environment that SaskTel operates in is reasonably stable, the Corporation dedicatedly focuses on managing its legal exposures. Central to legal risk management at SaskTel are the expertise and active business involvement of its corporate counsel division, a corporate structure that leverages the use of separate legal entities to limit liability; a focus on contractual assignments to limit liability; and sound operating procedures and insurance coverage. Additionally, the corporate insurance program provides a degree of financial protection from potential party legal liabilities.

2003                  2002                  2001                  2000                  1999

### **Finance**

(Thousands of dollars)

	<b>2003</b>	2002	2001	2000	1999
Operating revenues	<b>\$ 899,390</b>	\$ 893,485	\$ 863,426	\$ 785,609	\$ 763,461
Operating expenses	<b>786,568</b>	753,999	710,579	675,194	697,695
Other	<b>(18,493)</b>	(40,625)	(9,360)	24,447	37,785
Interest and related costs	<b>9,274</b>	33,715	41,990	41,525	26,987
Net income	<b>85,055</b>	65,146	101,497	93,337	76,564
Dividends	<b>76,564</b>	58,631	91,347	87,280	60,770
Gross construction expenditures	<b>137,208</b>	166,979	128,271	116,227	161,642
Property, plant & equipment*	<b>2,510,504</b>	2,512,258	2,411,795	2,309,505	2,256,534
Long-term debt (gross)*	<b>442,614</b>	473,907	478,934	390,203	453,089

### **Financial ratios**

Return on equity	<b>13.0%</b>	10.1%	16.0%	14.9%	12.4%
Debt ratio	<b>38.4%</b>	40.0%	41.3%	39.6%	39.6%

### **Employees and payroll**

Number of permanent employees (excluding part-time)					
Diversified operations**	<b>763</b>	802	747	507	435
SaskTel Wireline	<b>3,390</b>	3,370	3,354	3,370	3,819
Total	<b>4,153</b>	4,172	4,101	3,877	4,254
Salaries earned (thousands of dollars)	<b>\$ 272,063</b>	\$ 256,451	\$ 227,438	\$ 229,399	\$ 223,589

### **Operational highlights**

Network access services*	<b>610,717</b>	613,695	616,292	621,766	621,946
Internet access services*	<b>148,853</b>	128,501	106,204	88,427	66,435
Cellular access services*	<b>286,250</b>	259,071	240,492	218,856	188,002
Originated long distance minutes (in thousands)	<b>1,406,788</b>	1,437,747	1,442,165	1,406,739	1,273,545

\*At December 31

\*\*Includes SaskTel International, SaskTel Wireless, DirectWest, SecurTek, Navigata and Other

The accompanying consolidated financial statements included in the annual report of Saskatchewan Telecommunications Holding Corporation for the year ended December 31, 2003, are the responsibility of management and have been approved by the Board of Directors. Management has prepared the consolidated financial statements in accordance with generally accepted accounting principles in Canada. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

To ensure the integrity and objectivity of the financial data, management maintains a comprehensive system of internal controls including written policies and procedures, an organizational structure that segregates duties and a comprehensive internal audit program. These measures provide reasonable assurance that transactions are recorded and executed in compliance with legislation and required authority, assets are properly safeguarded and reliable financial records are maintained.

The Board of Directors fulfills its responsibility with regard to the financial statements principally through its Audit Committee, consisting solely of outside directors, which meets periodically with management as well as with the internal and external auditors. The Audit Committee is responsible for engaging or re-appointing the services of the external auditor. Both the internal and external auditors have free access to this committee to discuss their audit work, their opinion on the adequacy of internal controls and the quality of financial reporting. The Audit Committee has met with management and the external auditor to review the Corporation's annual consolidated financial statements prior to submission to the Board of Directors for final approval.

The consolidated financial statements have been audited by the independent firm of KPMG LLP Chartered Accountants, as appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan.



Donald R. Ching  
President & Chief Executive Officer



Randy Stephanson  
Chief Financial Officer  
January 28, 2004

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Telecommunications Holding Corporation as at December 31, 2003 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

Chartered Accountants

Regina, Canada  
January 28, 2004

## Consolidated statement of operations

For the year ended December 31  
(Thousands of dollars)

	<b>2003</b>	2002
<b>Operating revenues</b>	<b>\$ 899,390</b>	\$ 893,485
<b>Operating expenses</b>		
Operating expenses	620,341	589,384
Contribution and carrier costs	12,404	18,881
Depreciation and amortization	153,823	145,734
	<b>786,568</b>	753,999
<b>Income from operations</b>	<b>112,822</b>	139,486
<b>Other items (Note 4)</b>	<b>923</b>	774
<b>Interest and related costs (Note 5)</b>	<b>(9,274)</b>	(33,715)
<b>Income before the following</b>	<b>104,471</b>	106,545
<b>Gain on sale of investments (Note 8)</b>	<b>131</b>	—
<b>Writedown of investments (Note 8)</b>	<b>(10,112)</b>	(41,399)
<b>Writedown of goodwill (Note 9)</b>	<b>(9,435)</b>	—
<b>Net income</b>	<b>\$ 85,055</b>	\$ 65,146

## Consolidated statement of retained earnings

For the year ended December 31  
(Thousands of dollars)

	<b>2003</b>	2002
<b>Retained earnings, beginning of year</b>	<b>\$ 397,642</b>	\$ 391,127
<b>Net income</b>	<b>85,055</b>	65,146
	<b>482,697</b>	456,273
<b>Dividends</b>	<b>76,564</b>	58,631
<b>Retained earnings, end of year</b>	<b>\$ 406,133</b>	\$ 397,642

See Accompanying Notes

**Consolidated statement of financial position**

As at December 31  
(Thousands of dollars)

2003

**Assets****Current assets**

Cash and short-term investments (Note 6)	\$ 90,579	\$
Accounts receivable	92,833	
Inventories	4,072	
Prepaid expenses	10,381	

197,865

914,679

**Property, plant and equipment** (Note 7)

Investments (Note 8)	11,635	
Goodwill (Note 9)	19,386	
Customer accounts (Note 10)	30,601	
Other assets (Note 11)	61,603	

\$ 1,235,769 \$

**Liabilities and Province's equity****Current liabilities**

Accounts payable and accrued liabilities	\$ 115,636	\$
Dividend payable	23,197	
Service billed in advance	31,904	
Current portion of long-term debt (Note 12)	35,678	
	206,415	

372,547

578,962

**Long-term debt** (Note 12)**Non-controlling interest**

Province of Saskatchewan's equity		
Equity advance (Note 13)	250,000	250,000
Cumulative translation adjustments	5	38
Retained earnings	406,133	397,642
	656,138	647,680
	\$ 1,235,769	\$ 1,220,819

See Accompanying Notes

On behalf of the Board

Reg Bird

Alison Renny

## Consolidated statement of cash flows

For the year ended December 31  
(Thousands of dollars)

	<b>2003</b>	2002
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net income	\$ 85,055	\$ 65,146
Items not affecting cash from operations (Note 14)	148,254	185,038
Other operating items (Note 15)	21,884	927
	<b>255,193</b>	<b>251,111</b>
<b>Financing activities</b>		
Repayment of long-term debt	(10,935)	(4,844)
Proceeds from long-term debt	7,700	-
Capital lease obligations	(2,660)	(2,285)
Dividends paid	(58,608)	(73,880)
	<b>(64,503)</b>	<b>(81,009)</b>
<b>Investing activities</b>		
Property, plant and equipment expenditures	(127,730)	(164,998)
Businesses acquired	-	(4,431)
Investments acquired	(844)	(1,587)
Customer accounts	(6,756)	(6,803)
Other assets	852	58
	<b>(134,478)</b>	<b>(177,761)</b>
<b>Increase (decrease) in cash</b>	<b>56,212</b>	(7,659)
<b>Cash and cash equivalents, beginning of year</b>	<b>34,367</b>	42,026
<b>Cash and cash equivalents, end of year</b>	<b>\$ 90,579</b>	<b>\$ 34,367</b>
<b>Comprised of:</b>		
Cash	\$ -	\$ 3,413
Short-term investments	91,011	30,954
Bank indebtedness	(432)	-
	<b>\$ 90,579</b>	<b>\$ 34,367</b>
Interest Paid	\$ 36,182	\$ 37,351

See Accompanying Notes

## Note 1 – The Corporation

Saskatchewan Telecommunications Holding Corporation (the Corporation) markets and supplies a range of voice, data internet, wireless, text, image and entertainment products, systems and services. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of The Saskatchewan Telecommunications Holding Corporation Act, and as such, the Corporation and its wholly owned subsidiaries, except as identified in Note 21, are not subject to Federal or Provincial income taxes in Canada.

By virtue of The Crown Corporations Act, 1993, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation.

The Corporation's subsidiaries, Saskatchewan Telecommunications, and Navigata Communications Inc., are regulated by the Canadian Radio-television and Telecommunications Commission (CRTC) under the Telecommunications Act (Canada).

## Note 2 – Summary of significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry.

### Subsidiaries and investments

The consolidated financial statements include the accounts of the Corporation and its subsidiaries with all significant intercompany transactions and balances being eliminated. Investments in companies in which the Corporation has significant influence are accounted for by the equity method. Portfolio investments are accounted for by the cost method.

Declines in value below cost, of investments held using the equity or cost method, are recognized as a charge to earnings when such declines are considered to be other than temporary. Write-downs of investments are first applied against the cost method goodwill of the investment and secondly against its net assets.

The following is a summary of the operating entities under the Saskatchewan Telecommunications Holding Corporation group of companies:

Name	Percentage ownership	Basis for inclusion
<b>Operating entities:</b>		
Saskatchewan Telecommunications	100%	Consolidation
Saskatchewan Telecommunications International, Inc.	100%	Consolidation
DirectWest Publishing Partnership	100%	Consolidation
Navigata Communications Inc.	100%	Consolidation
SecurTek Monitoring Solutions Inc.	100%	Consolidation
Business Watch International Inc.	94.3%	Consolidation
Hospitality Network Canada Inc.	94.1%	Consolidation
Hospitality Network Canada Partnership	94.1%	Consolidation
Retx, Inc.	91.7%	Consolidation
Saskatoon 2 Management Ltd.	70.0%	Consolidation
Saskatoon 2 Properties Limited Partnership	70.0%	Consolidation
TappedInto.com, Inc.	37.4%	Equity
Soft Tracks Enterprises Ltd.	20.5%	Equity
Craig Wireless International Inc.	18.7%	Equity
Austar United Communications Limited	0.8%	Cost
Persona Inc.	6.2%	Cost
NSI Global Inc.	0.1%	Cost

The following is a summary of the non-operating entities of the Corporation: 101000606 Saskatchewan Ltd., 101000607 Saskatchewan Ltd., 3339807 Canada Ltd., 3364381 Canada Ltd., Avonlea Holding, Inc., Battleford International, Inc., Carlyle Holding, Inc., Dundurn Holding, Inc., Esterhazy Holding, Inc., Foam Lake Holding, Inc., Hollywood At Home Inc., Jan Lake Holding, Inc., Katepwa Lake Holding, Inc., Melfort Holding, Inc., Navigata Holding, Inc., Nokomis Holding, Inc., Outlook Holding, Inc., Pleasantdale Holding, Inc., Qu'Appelle Holding, Inc. (formerly The Ag Dealer Ltd.), Rosetown Holding, Inc., Saskatchewan Telecommunications International (Tanzania) Limited, SaskTel Data Exchange Inc., SaskTel Holding (Australia), Inc., SaskTel Holding (New Zealand) Inc., SaskTel Holding (U.K.) Inc., SaskTel International Consulting, Inc., SaskTel Investments Inc., SaskTel New Media Fund Inc., Shellbrook Holding, Inc., STI Communications Pty Limited, Tisdale Holding, Inc., Unity Holding, Inc., Vanguard Holding, Inc., and Wadena Holding, Inc.

**Short-term investments**

Short-term investments include investments in money market instruments, which are purchased with maturity dates of less than 90 days. Short-term investments are stated at cost which approximates market value.

**Property, plant and equipment**

Property, plant and equipment is recorded at cost including materials, services and direct labour.

Depreciation and amortization on property, plant and equipment is computed on the straight-line basis, using rates determined by a continuing program of engineering studies for each class of property in service.

When depreciable telecommunications property is retired, the cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation and amortization.

With respect to property, plant and equipment acquired, constructed or developed over time, the Corporation follows the policy of capitalizing related equipment, construction, development and installation costs as plant under construction. These costs are then depreciated and amortized on a basis consistent with the Corporation's depreciation and amortization policy from the date the asset is substantially completed and put into productive use.

**Goodwill**

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets may be impaired. The Corporation identifies goodwill impairment by comparing the fair value of its reporting units to their carrying amounts. Fair values of reporting units are calculated using industry specific valuation methods which include the discounted cash flow, earnings multiple and market comparability approaches. Any goodwill impairment is recorded as a charge against earnings in the year the impairment is recognized.

**Customer accounts**

Customer accounts acquired individually or with a group of other assets are initially recognized and measured at cost. The cost of internally developed customer accounts includes direct development costs and overhead directly attributable to the development activity. Customer accounts are amortized using the straight line method over their useful lives. The Corporation annually reviews the amortization method and useful lives of the customer accounts.

**Revenue recognition**

Revenues from local telecommunications, data, internet, entertainment and security services are recognized in the period the services are provided. Revenues from long distance and wireless airtime are recognized based on usage or rate plans in the period the services are provided. Revenues from equipment sales are recognized at the point of sale. Directory revenues are recognized during the period the directory is in circulation. Revenues for longer term consulting contracts are recognized based on the percentage of completion method.

**Inventories**

Materials, supplies and inventories are recorded at the lower of cost and net realizable value. Cost is determined using an average-cost basis.

### **Employee benefit plans**

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Corporation has adopted the following policies:

The cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

For the purpose of calculating the expected return on plan assets, those assets are valued at market related value

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market related value of the plan assets is amortized over the average remaining service life of active employees of the plan

### **Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenue and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

The financial statements of the Corporation's self sustaining foreign operation are translated using the current rate method under which all assets and liabilities are translated at the exchange rate prevailing at year end, and revenues and expenses at average exchange rates during the year.

### **Financial instruments**

Gains and losses on forward contracts and cross currency swaps used to manage exposure to foreign exchange are recognized on the same basis as the gains and losses on the hedged item. Gains and losses related to hedges of anticipated transactions are recognized in earnings or recorded as adjustments of carrying values when the hedge transaction occurs. Any premiums or discounts with respect to long-term debt are deferred and amortized to earnings over the contract period.

### **Income taxes**

The Corporation follows the asset and liability method of tax allocation accounting whereby future tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantial enactment. The amount of future income tax assets recognized is limited to the amount that is estimated as more likely than not to be realized.

### **Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. In determining estimates of net realizable value for its investments, the Corporation relies on assumptions regarding applicable industry performance and prospects, as well as general business economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

## Note 3 – Acquisitions

### **Investments: consolidation method**

Businesses acquired are accounted for under the purchase method and the results of operations have been included in consolidated earnings from the respective acquisition dates.

During 2003, the Corporation made an additional investment of \$2.0 million in Retx, Inc. (Retx), increasing its ownership to 91.7%. Retx is an e-business service company providing transaction clearinghouse service and load management for the retail energy sector.

During 2003, the Corporation made an additional investment of \$0.4 million in Business Watch International Inc. (BWI), increasing its ownership to 94.3%. BWI provides crime prevention computer software to police agencies, pawnbrokers, and other businesses engaged in the acquisition and resale of used goods.

The total consideration, the fair value of the Corporation's portion of the identifiable net assets acquired and the resulting goodwill is as follows (thousands of dollars):

	Retx	BWI	Total
Total consideration	\$ 1,962	\$ 381	\$ 2,343
Total assets	1,604	359	1,963
Total liabilities	–	1	1
Net assets acquired	1,604	358	1,962
Goodwill acquired in 2003	\$ 358	\$ 23	\$ 381

In the prior year, the Corporation acquired additional equity positions in Retx, Inc. for \$4.4 million, The Ag Dealer Ltd. for \$2.1 million, and Business Watch International for \$1.0 million. In addition, the Corporation acquired 100% of the issued shares of three corporations providing security services for \$5.2 million, and the customer base and network assets of Entirety Communications Inc. for \$0.5 million.

### **Investments in significantly influenced companies: equity method**

During 2003, the Corporation purchased additional shares of TappedInto.com, Inc. (TappedInto) for \$1.5 million. In November 2003, TappedInto merged its operations with Toronto, Ontario based Streamlogics Corporation. The transaction resulted in the Corporation retaining a 37.4% equity interest in TappedInto, which includes on a consolidated basis the operations of both TappedInto and Streamlogics Corporation. TappedInto and Streamlogics Corporation provide both live and archived webcasting services over the Internet and amalgamated in January 2004.

In February 2003, the Corporation made an additional investment of \$0.5 million in Soft Tracks Enterprises Ltd. (Soft Tracks), increasing its ownership to 20.5%. Soft Tracks provides payment acceptance technology for wired and wireless devices to the wireless communication and electronic payment industries.

In the prior year, the Corporation acquired additional shares of TappedInto for \$1.6 million.

**Note 4 – Other items**

	2003	2002
	(Thousands of dollars)	
Net share of loss from significantly influenced companies	\$ (1,527)	\$ (7,64
Proceeds from termination of foreign currency swap	—	4,733
Interest income	1,138	954
Writtenown of assets (Note 9)	(996)	
Other	1,649	
Non-controlling interest	659	
	<hr/>	<hr/>
	\$ 923	\$

**Note 5 – Interest and related costs**

	2003	2002
	(Thousands of dollar)	
Interest expense	\$ 37,034	\$ 38,1
Foreign currency translation gains	(22,944)	(919)
Other	19	
	<hr/>	<hr/>
	14,109	37,689
Less: Sinking fund earnings	2,682	2,737
Interest on short-term investments	2,153	1,237
	<hr/>	<hr/>
	\$ 9,274	\$ 33,715

**Note 6 – Short-term investments**

The balance consists of funds invested with the Province of Saskatchewan at an effective average interest rate of 2.93% (2002 – 2.52%)

## notes to consolidated financial statements

December 31, 2003

### Note 7 – Property, plant and equipment

Asset				Useful life
	Cost	Accumulated depreciation and amortization	Net book value	
			2003	2002
			(Thousands of dollars)	
Buildings	\$ 239,887	\$ 118,806	\$ 121,081	\$ 111,302
Plant and equipment	2,040,331	1,422,041	618,290	609,486
Office furniture, equipment and leaseholds	124,679	54,978	69,701	68,902
Plant under construction	86,107	—	86,107	125,526
Materials and supplies	9,816	—	9,816	11,860
Land	9,684	—	9,684	9,214
	<b>\$ 2,510,504</b>	<b>\$ 1,595,825</b>	<b>\$ 914,679</b>	<b>\$ 936,290</b>

Depreciation and amortization for the year totalled \$148,859,721 (2002 – \$142,053,091)

Property, plant and equipment includes assets under capital leases of \$10,431,092 (2002 – \$10,569,683) and accumulated depreciation and amortization of \$2,700,360 (2002 – \$1,664,714).

### Note 8 – Investments

	2003	2002
	(Thousands of dollars)	
<b>Significantly influenced companies: equity method</b>		
TappedInto.com, Inc.	\$ 702	\$ 3,040
Soft Tracks Enterprises Ltd.	100	1,000
<b>Other long-term investments: cost method</b>		
Persona Inc. (1,223,491 common shares)	8,320	14,682
Austar United Communications Limited (9,550,574 ordinary shares)	2,513	3,452
Other	—	40
	<b>\$ 11,635</b>	<b>\$ 22,214</b>

Included in the above balances is equity method goodwill of \$263,648 (2002 – \$3,208,817), which represents the excess of cost of the investments over the Corporation's share of net book value of the investment.

During the year, Austar United Communications Limited issued the Corporation 6,283,273 rights to purchase an equivalent number of shares. These rights were subsequently sold for \$1,069,888, resulting in a gain of \$131,433.

There was a decline in value of certain investments of the Corporation that was considered to be other than temporary, resulting in a writedown in 2003 as follows:

	(Thousands of dollars)
Persona Inc.	\$ 6,362
TappedInfo.com, Inc.	2,785
Soft Tracks Enterprises Ltd.	925
Other	40
	<hr/>
	\$ 10,111

At year end the quoted market value of the Austar United Communications Limited and Persona Inc. investments were \$3,810,402 (2002 – \$1,443,216) and \$5,261,011 (2002 – \$5,322,186) respectively (see Note 16).

### Note 9 – Goodwill

The changes in the carrying amount of goodwill are as follows:

	2003	2002
	(Thousands of dollars)	
Balance as at January 1	\$ 28,440	\$ 18,026
Acquired during the year (Note 3)	381	2,060
Writedown of goodwill – Retx	(9,435)	
Transfer from equity method goodwill – Retx	–	8,354
 Balance as at December 31	<b>\$ 19,386</b>	<b>\$ 28,440</b>

During the year, the Corporation tested the amount allocated to goodwill for Retx and determined that a writedown of \$9,435,492 was required due to a decrease in the fair value of its operations in the past year. Accordingly, the Corporation also recorded a writedown of \$995,804 related to certain assets owned by Retx (Note 4).

### Note 10 – Customer accounts

The cost of customer accounts acquired is being amortized over their estimated useful life of 3 to 12.5 years from date of acquisition. Amortization of these definite life intangible assets during the year totalled \$4,336,185 (2002 – \$3,150,517).

	Cost	Accumulated depreciation and amortization	Net book value	
			2003	2002
			(Thousands of dollars)	
Customer accounts	\$ 40,710	\$ 10,109	\$ 30,601	\$ 31,348

# notes to consolidated financial statements

December 31, 2003

## Note 11 – Other assets

	2003	2002
	(Thousands of dollars)	
Deferred pension costs (Note 18)	\$ 51,573	\$ 44,031
Competition implementation costs	3,015	3,866
Unamortized discount on long-term debt	2,361	2,380
Sales-type leases	639	738
Other	4,015	3,192
	<b>\$ 61,603</b>	<b>\$ 54,207</b>

Depreciation and amortization for the year totalled \$626,701 (2002 – \$530,239).

## Note 12 – Long-term debt

	Years to Maturity	Weighted Average Interest Rate (%)	2003	2002
			(Thousands of dollars)	
Province of Saskatchewan				
Canadian dollar issues	1 to 5	10.81%	\$ 95,930(a)	\$ 83,333
Canadian dollar issues	6 to 10	6.15%	90,000	110,779
Canadian dollar issues	26	5.51%	110,000(b)	110,000
U.S. dollar issue	17	9.38%	129,650(c)	157,760
			<b>425,580</b>	461,872
Capital lease obligations			8,365(e)	11,026
Other			8,669(f)	1,009
			<b>442,614</b>	473,907
Less sinking funds			34,389(d)	34,453
Total long-term debt			<b>408,225</b>	439,454
Less current portion of long-term debt			<b>35,678</b>	15,115
			<b>\$ 372,547</b>	\$ 424,339

- (a) Long-term debt totalling \$95,930,000 is subject to redemption at the option of the issuer on 30 days' notice, as outlined in the terms and conditions.
- (b) Long-term debt totalling \$35,000,000 contains a one-time redemption provision exercisable on March 5, 2006, whereby the investor may redeem the debt. The debenture pays interest at 5% to March 5, 2006, and 5.6% thereafter.

(c) Represents long-term debt repayable in U.S. funds having a U.S. dollar face value of \$100,000,000 converted to \$115,360,000 Canadian at the time of issue. The recorded amount is based on the foreign exchange rate at December 31, 2003 of 1.2965 (2002 – 1.5776).

(d) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds administered by the Province of Saskatchewan, 1% of the debt outstanding. The sinking funds include investments denominated in U.S. dollars held in the fund having a U.S. dollar value of \$21,650,740 recorded at \$28 Canadian dollar equivalent.

Sinking fund installments and long-term debt repayments (net of sinking funds) due over the next five years are as follows:

	(Thousands of dollars)
2004	\$
2005	\$
2006	\$
2007	\$ 1
2008	\$

(e) Certain property, plant and equipment have been acquired under lease transactions which are accounted as purchases. The capital lease obligations recorded in these consolidated financial statements reflect the present value of future minimum payments under these leases, discounted at the interest rates implicit in the leases. The interest rates implicit in these leases primarily range between 5.7% and 8.7% (2002 – 7.0% and 10.2%), with a weighted average of 7.6% (2002 – 8.2%). The lease agreements expire variously between 2004 and 2006. During the year, the Corporation did not acquire property, plant and equipment under capital leases (2002 – \$27,255).

	2003	2
	(Thousands of dollars)	
2003	\$ –	\$ 3
2004	<b>3,715</b>	3,700
2005	<b>3,761</b>	3,738
2006	<b>2,563</b>	2,557
2007	–	
2008	–	
Aggregate future minimum lease payments	<b>10,039</b>	13,756
Portion representing implied interest	<b>1,674</b>	2,730
Capital lease obligations	<b>8,365</b>	11,026
Less current portion	<b>2,873</b>	2,696
Long-term portion	<b>\$ 5,492</b>	\$ 8,330

Interest expense on capital lease obligations during the year totalled \$1,049,909 (2002 – \$1,266,075)

**notes to consolidated financial statements**

December 31, 2003

(f) This includes amounts by way of a first mortgage on real property. The mortgage bears an annual interest rate of 6.28% and is amortized over 20 years. The principal repayments due in the next five years are as follows:

	(Thousands of dollars)
2004	\$ 203
2005	\$ 216
2006	\$ 230
2007	\$ 244
2008	\$ 260

**Note 13 – Equity advance**

As a Saskatchewan Provincial Crown corporation, the Corporation's equity financing is in the form of equity advances of \$250,000,000 (2002 – \$250,000,000) from CIC.

**Note 14 – Items not affecting cash from operations**

	2003 (Thousands of dollars)	2002 (Thousands of dollars)
Depreciation and amortization	\$ 153,823	\$ 145,734
Pension expense (income) of defined benefit plans	574	(4,906)
Net share of loss from significantly influenced companies	1,527	7,645
Foreign currency translation gains	(22,944)	(919)
Sinking fund earnings	(2,682)	(2,737)
Writedown of investments	10,112	41,399
Writedown of goodwill	9,435	–
Other	(1,591)	(1,178)
	<b>\$ 148,254</b>	<b>\$ 185,038</b>

**Note 15 – Other operating items**

	2003 (Thousands of dollars)	2002 (Thousands of dollars)
Changes in non-cash working capital:		
Accounts receivable	\$ 4,814	\$ 4,279
Inventories	(764)	5,838
Prepaid expenses	2,616	322
Accounts payable and accrued liabilities	22,007	(11,674)
Service billed in advance	1,498	2,162
Contributions to defined benefit pension plans	(8,287)	–
	<b>\$ 21,884</b>	<b>\$ 927</b>

## Note 16 – Financial instruments

### Credit risk

The Corporation has a large and diverse customer base that minimizes the concentration of credit risk. In addition the Corporation does not anticipate non-performance by any counterparties to its derivative financial instruments. The Corporation deals only with those financial institutions whose credit rating is A or better, and monitors the credit risk and credit standing of counterparties on a regular basis. The Corporation manages its exposure so that there is no substantial concentration of credit risk resulting from cross currency swaps and forward contracts.

### Currency exposure

The Corporation uses a combination of derivative financial instruments to manage foreign exchange risk exposure. The Corporation does not actively trade derivative financial instruments.

At year end, the Corporation had no outstanding derivative financial instruments.

### Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties, based on current markets for instruments with similar characteristics, such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

At year end, the carrying value of all financial instruments approximates fair value with the following exception (thousands of dollars):

	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Equity in sinking funds	\$ 34,389	\$ 35,851	\$ 34,453	\$ 37,211
Long-term debt, Province of Saskatchewan	\$ 425,580	\$ 509,486	\$ 461,872	\$ 564,654

The fair values of investments which are publicly traded are determined by the quoted market values for each of the investments (Note 8). The fair values of other investments approximate their carrying amounts.



## Note 17 – Segmented information

The Corporation has identified three reportable segments: SaskTel Wireline, SaskTel Wireless, and DirectWest Publishing Partnership (DirectWest). SaskTel Wireline is the principal supplier of telecommunication products and services such as voice, data, value-add network and IP-based applications in the province of Saskatchewan. SaskTel Wireless provides a full range of wireless products and services such as cellular, paging and *Fleetnet 800™*, as well as wireless data connectivity in Saskatchewan. DirectWest provides directory services and interactive services through the internet.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Corporation accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

The reportable segments are the major strategic business units of the Corporation. Each business unit is managed separately because they provide products and services requiring different technology and marketing strategies.

### Reportable operating segments:

(Thousands of dollars)	SaskTel Wireline	SaskTel Wireless	DirectWest	All Other <sup>1</sup>	Total
<b>2003</b>					
Total revenue	\$ 647,668	\$ 167,193	\$ 34,747	\$ 137,094	\$ 986,702
Depreciation and amortization	121,030	16,857	944	14,992	153,823
Income from operations	81,836	28,055	1,717	7,222	118,830
Other significant non-cash items:					
Writedown of goodwill and investments	–	–	–	(19,547)	(19,547)
Net share of loss of significantly influenced companies	–	–	–	(1,527)	(1,527)
Total assets	889,244	128,403	12,583	515,389	1,545,619
Equity method investments	–	–	–	802	802
Net property, plant and equipment expenditures	85,297	30,830	397	11,206	127,730
<b>2002</b>					
Total revenue	\$ 662,027	\$ 159,525	\$ 33,732	\$ 118,704	\$ 973,988
Depreciation and amortization	114,891	15,047	1,121	14,675	145,734
Income from operations	108,024	29,824	1,597	6,516	145,961
Other significant non-cash items:					
Writedown of goodwill and investments	–	–	(20)	(41,379)	(41,399)
Net share of loss of significantly influenced companies	–	–	–	(7,645)	(7,645)
Total assets	861,233	114,963	14,028	484,336	1,474,560
Equity method investments	–	–	–	4,040	4,040
Net property, plant and equipment expenditures	126,392	28,527	629	9,450	164,998

All Other includes subsidiaries, investments and divisions of the Corporation. A complete list of subsidiaries and investments is provided in Note 2.

**Reconciliation to reportable segments:**

	2003 (Thousands of dollars)	2002 (Thousands of dollars)
Total revenues for reportable segments	<b>\$ 986,702</b>	\$ 973,941
Elimination of intersegment revenues	<b>87,312</b>	6,517
 Consolidated operating revenues	 <b>\$ 899,390</b>	 \$ 893,485
Total income from operations for reportable segments	<b>\$ 118,830</b>	\$ 145,961
Elimination of intersegment income	<b>6,008</b>	—
 Consolidated income from operations	 <b>\$ 112,822</b>	 \$ 139,453
Total assets for reportable segments	<b>\$ 1,545,619</b>	\$ 1,471,121
Elimination of intersegment assets	<b>309,850</b>	253
 Consolidated total assets	 <b>\$ 1,235,769</b>	 \$ 1,220,868

# notes to consolidated financial statements

December 31, 2003

## Note 18 – Employee benefit plans

The Corporation has two defined benefit pension plans providing pension benefits to its employees.

The larger of the two plans is governed by Saskatchewan Telecommunications (SaskTel), which has been closed to new membership since 1977. Current service costs of this plan are charged to earnings on the basis of actuarial valuations, the most recent valuation for SaskTel was December 31, 2001.

The second plan is governed by Navigata Communications Inc. Current service costs of this plan are charged to earnings on the basis of actuarial valuations, the most recent valuation for Navigata was December 31, 2002.

Economic assumptions	2003	2002
Discount rate	<b>6.20%</b>	6.20%
Expected return on plan assets	<b>7.25%</b>	7.25%
Inflation rate	<b>2.20%</b>	2.20%
Expected salary increase	<b>2.20%</b>	2.20%
Post-retirement index (not to exceed 2%)	<b>100% of CPI</b>	100% of CPI

Pension (expense) income	2003	2002
	(Thousands of dollars)	
Current service cost – defined benefit plan	\$ (8,175)	\$ (7,072)
Interest cost	(50,014)	(50,264)
Expected return on pension plan assets	<b>54,504</b>	53,770
Amortization of net transitional asset	<b>11,654</b>	11,641
Amortization of past service costs	(4,105)	(4,105)
Amortization of actuarial loss	(4,467)	(39)
Impact of settlement	<b>29</b>	–
Pension (expense) income	<b>\$ (574)</b>	\$ 3,931

Accrued benefit obligation	2003	2002
	(Thousands of dollars)	
Accrued benefit obligation, beginning of year	\$ 817,202	\$ 750,835
Current service cost	<b>11,333</b>	10,256
Interest cost	<b>50,014</b>	50,264
Benefits paid	(43,369)	(43,552)
Impact of change in discount rate	<b>568</b>	49,399
Impact of settlement	(107)	–
Experience and other gains	(617)	–
Accrued benefit obligation, end of year	<b>\$ 835,024</b>	\$ 817,202

<b>Plan assets</b>	<b>2003</b>	<b>2002</b>
	(Thousands of dollars)	
Fair value of plan assets, beginning of year	\$ 695,604	\$ 757,497
Actual return on plan assets	71,099	(22,382)
Employer contributions	8,287	857
Employee contributions	3,156	3,184
Benefits paid	(43,369)	(43,552)
Refund of assets on termination of supplemental plan	(58)	
 Fair value of plan assets, end of year	 \$ 734,719	 \$ 695,604
 <b>Deferred pension costs</b>	 <b>2003</b>	 <b>2002</b>
	(Thousands of dollars)	
Funded status – (deficit)	\$ (100,305)	\$ (12,100)
Unamortized transitional asset	(62,469)	(74,100)
Unamortized past service costs	21,884	25,989
Unamortized net actuarial losses	192,438	213,100
 Deferred pension costs (net)	 \$ 51,548	 \$ 43,831
Comprised of:		
Deferred pension costs	\$ 51,573	\$ 44,031
Deferred pension liability	25	196
 	 \$ 51,548	 \$ 43,831

In 2003, the Corporation wound up the Navigata Communications Inc. Retirement Compensation Arrangement for a former senior officer ("Supplemental Plan"). The wind up of the Supplemental Plan has been accounted for as both a settlement and a curtailment, effective January 1, 2003.

The Corporation also has employees who are members of the Public Employees Pension Plan, which is a defined contribution pension plan. The 2003, pension expense and employer contributions for the Public Employees Pension Plan are \$11,126,115 (2002 – \$10,302,498).

### Note 19 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan by virtue of common control by the Government of Saskatchewan, non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and investee corporations accounted for under the equity method (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year end are as follows:

	2003	2002
	(Thousands of dollars)	
Operating revenues	\$ 58,199	\$ 59,586
Operating expenses	37,144	37,844
Accounts receivable	3,711	4,556
Accounts payable	2,859	1,129
Property, plant and equipment – net expenditures (proceeds)	384	(1,206)

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and the terms of settlement are described separately in these financial statements and notes thereto.

### Note 20 – Commitments and contingencies

The future minimum payments under operating leases and contractual obligations for services in each of the next five years are as follows:

	(Thousands of dollars)
2004	\$ 55,484
2005	\$ 45,045
2006	\$ 42,688
2007	\$ 27,488
2008	\$ 26,935

The above payments include \$20,938,650 for leases with related parties.

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2003 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

## Note 21 – Income taxes

The following subsidiaries are subject to income taxes: Business Watch International Inc., Navigata Communications Inc., Navigata Holding, Inc., Retx, Inc. and STI Communications Pty Limited.

As at December 31, 2003, the Corporation has available non-capital losses for income tax purposes of approximately \$83,561,000, which are available to be carried forward to reduce taxable income in future years, and expire as follows:

	(Thousands of dollars)
2004	\$ 34
2005	877
2006	9,933
2007	37,484
2008	2,956
2009	19,427
2010	12,850
	 <hr/>
	\$ 83,561

Temporary differences as at December 31, 2003 between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases deductible against taxable income of future years, including non-capital losses, are as follows:

	(Thousands of dollars)
Property, plant and equipment	\$ (4,608)
Intangible assets	241
Accrued employee benefit liability	25
Reserves, provisions and other	3,386
Non-capital tax losses carried forward	83,561
	 <hr/>
Net temporary differences	\$ 82,605

The future income tax benefit which may arise as a result of these net temporary differences has not been recognized in these consolidated financial statements.

## Note 22 – Comparative figures

2002 figures have been reclassified to conform to the current year's presentation.

## board of directors

### Reg Bird, Chair

- Currently chairs Board of Directors of TRLabs.
- Former President of Nortel Networks – Asia South Pacific from 1998 to 2001.
- President and CEO of Manitoba Telephones from 1987 to 1990.
- Has served on the Boards of Telesat Canada, Telecom Canada, the United Way, EPCOR, and the Banff School of Advanced Management.
- Member of British Columbia's Premier Technology Council.
- B. Elec. Eng., Royal Military College (Kingston); Advanced Management Course, Harvard; Banff School of Advanced Management.



### Tracey Bakkel, Vice-chair

- President of T. Bakkel Consultants Inc., providing business advisory services to managers in both the public and private sector.
- Previously worked for a national consulting firm and a major Canadian bank.
- Currently serves as a board member and Chair of the Audit Committee for the Canada Deposit Insurance Corporation.
- M.B.A., University of Western Ontario; B.Admin., University of Regina; Certified Management Consultant.



### Allan E. Blakeney

- President and Director of a small holding company, Glamorgan Holdings Inc.
- Long-serving MLA of the Saskatchewan Legislature, including 11 years as premier.
- Has taught at Osgoode Hall Law School, York University, Toronto, York's Faculty of Administrative Studies (1988-1990), and at the College of Law, University of Saskatchewan, Saskatoon.
- Has served as a director of a number of corporations and non-governmental organizations, including: Algoma Steel Inc., Crown Life Insurance Company, Cameco Corporation, Greystone Capital Management Inc., the Saskatchewan Institute on Public Policy, Canadian Civil Liberties Association, and the Council for Canadian Unity.
- Lectures and publishes widely on political and legal issues.
- B.A. and LL.B., Dalhousie University, Halifax; B.A. and M.A., Oxford University (Rhodes Scholarship).



### Lloyd Cherniawsky

- 28 years with SaskTel, Engineering Assistant.
- Board representative for the Communications, Energy and Paperworkers Union of Canada (CEP).
- Formerly served on the United Way Fund Allocations Panel.



### Richard Gladue

- Grand Chief of the Meadow Lake Tribal Council.
- Former Chief of the Flying Dust First Nation.
- Serves on Northern Inter-Tribal Health Planning Steering Committee; Federation of Saskatchewan Indian Nations (FSIN) – Indian Government Commission, the Executive Council and Health and Social Development Commission; Health and Social Development Commission, Meadow Lake Tribal Council.
- Diploma of Business Administration, University of Regina.



### Karen Leir

- 22 years with SaskTel; currently a Business Analyst.
- Board representative for the Communications, Energy and Paperworkers Union of Canada (CEP).



### Don Lowry

- President and Chief Executive Officer of EPCOR Utilities Inc.
- Former President and Chief Operating Officer of Telus Communications Inc.
- In past, has served on the board of Telecom Canada, and numerous other telecommunications boards.
- B. Comm., M.B.A., University of Manitoba.



**Alison Renny**

- Assistant Dean, College of Commerce, University of Saskatchewan.
- Previously worked as a banker at the Bank of Montreal, an auditor for the Saskatchewan Provincial Auditor, acting controller for the Kelsey Institute of Applied Arts and Sciences, and Manager of System and Consulting, Hospital Systems Study Group.
- B.A., B.Comm (Accounting), and M.B.A. Holds a Professional A Teaching Certificate and is a Certified Management Accountant (CMA).

**Douglas B. Richardson**

- Partner and Chair of McKercher, McKercher & Whitmore, Saskatchewan law firm
- Previously worked in the investment banking industry, as well as in federal government in Ottawa.
- Formerly a principal of a family-owned real estate business with assets in Saskatchewan, Alberta, and Colorado.
- Acts as advisor to both federal and provincial governments on constitutional, intergovernmental, and related matters.
- Director of six privately-held companies, two publicly-traded companies, and a trustee of two international education trusts.
- LL.B. and B.A., University of Saskatchewan.
- Q.C. (Queen's Counsel).

**Benjamin Voss**

- President & CEO (Director) of Clear-Green Environmental Inc., a company that produces renewable energy and fertilizer products from agricultural waste.
- Founder and Senior partner in BDI Inc., an engineering consulting and product development company.
- Serves on several boards and committees, including the Consulting Practice Committee for the Association of Professional Engineers and Geoscientists of Saskatchewan (APEGS), the University of Saskatchewan Alumni, Bio-Products Saskatchewan, and Saskatoon Big Brothers.
- BSc. (Agricultural and Bioresource Engineering), University of Saskatchewan.

**Wendy Dean**

- Secretary to the Board of Directors.

**BOARD MEMBERS OUTGOING****Donald Ching\*****Kathleen Peterson\*****Wayne Byers\*\***

\*SaskTel appreciates the contributions of Don Ching and Kathleen Peterson who left the Board as of December 4, 2000

\*\*SaskTel appreciates the contribution of Wayne Byers who left the Board as of September 16, 2003.

**COMMITTEES TO THE BOARD as of December 4, 2003****Audit Committee**

Alison Renny, Chair  
Tracey Bakkel  
Karen Leir  
Doug Richardson

**Corporate Growth Committee**

Tracey Bakkel, Chair  
Don Lowry  
Alison Renny  
Benjamin Voss

**Environment & HR**

Allan Blakeney, Chair  
Lloyd Cherniawsky  
Karen Leir  
Richard Gladue  
Benjamin Voss

**Governance Committee**

Doug Richardson, Chair  
Allan Blakeney  
Lloyd Cherniawsky  
Richard Gladue

### SaskTel Executive Officers

#### **Don Ching – President and Chief Executive Officer**

- Eight years with SaskTel as President and CEO.
- Serves on the boards of BOI-ID Diagnostic Inc., Millar Western, and Prairie Plant Systems.
- Previous positions include Deputy Minister, Department of Labour, Province of Saskatchewan; Executive Director of Government Finance, Province of Saskatchewan; Executive Vice President, Potash Corporation of Saskatchewan; Managing partner of Mitchell, Taylor, Romanow, and Ching Law Firm; and President, Saskatchewan Crown Investments Corporation.
- LL.B. and B.A., University of Saskatchewan.

#### **Mike Anderson – Vice President, Marketing**

- 23 years with SaskTel, in a variety of positions in Marketing, Operations, Customer Services, and Corporate Development.
- Serves on the boards of DirectWest Publishing Partnership and Navigata Communications Inc.
- B.Admin, University of Regina; Certified Management Accountant (CMA); member of the Society of Management Accountants.

#### **Dan Baldwin – Senior Vice President, Business Development**

- Nine years with SaskTel, including Senior Vice President of MIS, Marketing, and Strategic Business Development.
- Serves on the boards of Business Watch International Inc., DirectWest Publishing Partnership, Hospitality Network Canada , Navigata Communications Inc., SecurTek Monitoring lutions Inc., Streamlogics Corporation.
- Prior to SaskTel, worked 10 years in the Treasury and Debt nagement Division of Saskatchewan Finance.
- Three years with Crown Investments Corporation Saskatchewan.
- Five years as a practicing lawyer.
- LL.B. and B.A., University of Saskatchewan.

#### **Doug Burnett – Vice President, Human Resources**

##### **Industrial Relations**

- Years with SaskTel, initially as Corporate Counsel, advising on man Resources and Industrial Relations matters.
- Serves on the boards of Wicihitowin Foundation, SecurTek Monitoring Solutions Inc., and INROADS, Inc.
- Member of the Conference Board of Canada's Human ource Executive Council (West) and the National Industrial Relations Executive Council.
- Prior to SaskTel, practiced law in Regina.
- B.A., University of Regina; LL.B., University of Saskatchewan; and Certified Human Resources Professional (CHRP) designation.
- Member of both the Canadian Bar Association and the Law Society of Saskatchewan.

#### **Ken Keesey – Vice President, Customer Services – Sales**

- 22 years with SaskTel, in a variety of positions within Sales and Customer Services.
- Serves on the boards of HOOP, Saskatchewan Crime Stoppers, 2004 Nokia Brier, and has recently been asked to serve with the Saskatoon City Hospital Foundation.
- Governor for Junior Achievement of Northern Saskatchewan.
- B. Admin., University of Regina.

#### **John Meldrum – Vice President, Corporate Counsel and Regulatory Affairs**

- 26 years with SaskTel, first as a solicitor and later as General Counsel and Corporate Secretary.
- Serves on the boards of Navigata Communications Inc. and Hospitality Network Canada Inc.
- Member of The Canadian Bar Association, The Law Society of Saskatchewan.
- LL.B., University of Saskatchewan.
- Received Q.C. (Queen's Counsel) designation in 2000.

#### **Diana Milenkovic – Senior Vice President, Customer Service Operations and Mobility**

- 12 years with SaskTel in VP roles of Corporate Affairs, Mobility, Customer Services Sales & Operations.
- Serves on Boards of Soft Tracks Enterprises Ltd., SecurTek Monitoring Solutions Inc., and Canadian Wireless Telecommunications Association; Chair of Saskatchewan Communications Network; and serves on community Boards of 2005 Canada Games and The Regina Symphony.
- Prior to SaskTel, worked as Policy Advisor Executive Council and Leader of the Opposition Office, Government of Saskatchewan; Marketing for Western Canada Summer Games; 12 years with Boards of Education in Regina, Saskatoon, Swift Current.
- B. Music, BA, University of Saskatchewan; Executive Business Programs in Leadership, Finance and Process Mastery.

#### **Garry Simons – President, SaskTel International**

- 28 years with SaskTel, formerly in VP roles in Operations, Customer Services, and Human Resources and Supplies and Services.
- Has served on the boards of the Saskatchewan Power Corporation, SaskTel International, LCL Cable Communications Limited, DirectWest Publishing Partnership, the Wicihitowin Foundation, Saskatchewan Communications Network (SCN), and the Ranch Ehrlo Society.
- Previous positions include Executive Director of Personnel and Industrial Relations, Potash Corporation of Saskatchewan; Deputy Minister of Labour, Province of Saskatchewan; and Assistant Deputy Minister of Labour in the Province of Manitoba.
- Former Executive Vice President Western Region for the Communication Workers of Canada (now the CEP).

#### **Randy Stephanson – Chief Financial Officer**

- 28 years with SaskTel, including two years in the Philippines with SaskTel International, in various financial positions, and as General Manager – Customer Services, Districts.
- Serves on the boards of SaskTel International, DirectWest Publishing Partnership, and Retx, Inc.
- Certified Management Accountant; Diploma of Accountancy, SIAST.
- Member and past director of Management Accountants of Saskatchewan.

#### **Kym Wittal – Chief Technology Officer**

- 21 years with SaskTel, including positions in Engineering, IT Business Solutions, Customer Services and Human Resources.
- Serves on the Boards of TRLabs, Navigata Communications Inc., and Business Watch International Inc.
- BScEE, P.Eng., University of Saskatchewan; member of Association of Professional Engineers and GeoScientists of Saskatchewan (APEGS).

<b>SaskTel Subsidiaries Executive Officers</b>	Gord Farmer Doug Irwin Tom Laird	President, DirectWest President, SecurTek President, Navigata Communications
<b>SaskTel Senior Operating Officers</b>	Dale Baron Dave Birnie Phil Bohay Lana Doke  Gail Lefebvre Dave Lozinski Darcee MacFarlane Candice Molnar Garry Reichert Al Rogers Stacey Sandison Daryl Silzer Curt Smith Shelly Smith Dennis Terry Pat Tulloch Al Yam Barry Ziegler	Controller General Manager, Customer Services Operations General Manager, Customer Services – Business Sales and Solutions General Manager, Customer Services – Consumer Enterprise and Solutions  General Manager, Customer Services Development and Support General Manager, Corporate Services General Manager, Corporate Affairs General Manager, Regulatory Affairs General Manager, Technology, Performance and Operations General Manager, Information Technology Management General Manager, Customer and Marketing Services – Mobility General Manager, Strategic Business Development General Manager, Managed Information Services General Manager, Digital Interactive Video General Manager, Business, Planning and Technology – Mobility General Manager, Marketing General Manager, Technology Development and Engineering Executive Vice President, Investments, SaskTel International
<b>SaskTel International Senior Operating Managers</b>	Garry Simons Scott Fedec Don Prokopetz Mike Ryan Barry Ziegler	President, SaskTel International Vice President, Finance and Human Resources Vice President, Software Solutions Vice President, Marketing and Operations Executive Vice President, Investments

## Authority

SaskTel is a Crown corporation governed by *The Saskatchewan Telecommunications Holding Corporation Act*, and subject to the provisions of *The Crown Investments Corporation Act, 1993*. The Crown Investments Corporation of Saskatchewan (CIC), as the holding company for Saskatchewan's commercial Crown corporations, has authority to establish direction for SaskTel related to certain matters set out in the legislation.

Through the Chair, who is an outside, unrelated director, the Board of Directors is accountable to the Minister Responsible for SaskTel. The Minister Responsible is a key communications link among the Corporation, CIC, Cabinet, the Legislature and the public.

## Role of the Board

The Board of Directors is responsible for supervising the management and affairs of the Corporation. The scope of the Board's supervisory responsibility includes participating in the strategic planning process, approving budgets, operating goals and business plans, evaluating senior management, succession planning and assessing the effectiveness of SaskTel's management of risk, internal controls and communications strategies.

While focusing on the strategic leadership of the Corporation, the Board delegates day-to-day operations to management and holds it accountable for the Corporation's performance. The Board expects management to implement Board directives and policies and to keep the Board apprised of significant activities. A comprehensive Final Authorization Policy, applicable to monetary and non-monetary matters, sets out those matters that require Board approval and delegates other matters to management.

## Board Composition and Compensation

The Lieutenant Governor in Council appoints members of the Board, and designates the Chair and Vice Chair. Directors are appointed for three-year terms and their appointments can be renewed at expiry.

There are 12 members on the Board. Directors bring to the Corporation diverse skills and backgrounds, including industry knowledge, international business experience, accounting and legal skills, labour relations capacity, community and business contacts and environmental expertise.

CIC policy entitles directors to an annual retainer, meeting and travel fees and expenses.

## Key Responsibilities of Committees

The Board discharges its responsibilities directly, by delegation to management, and through the following Committees.

### Audit Committee

The Audit Committee monitors the financial performance of the Corporation and assists the Board to meet its responsibilities respecting financial reporting, risk management, internal controls and accountability. The Committee interacts directly with the internal and external auditors, and annually reviews the external auditors' independence, quality of service and performance. There are four members of the Audit Committee, and it met seven times in 2003.

## **Environment and Human Resources Committee**

The Environment and Human Resources Committee monitors Corporate activities related to environmental, health and safety and human resource strategies, and oversees the effectiveness of compliance programs in these areas. The Committee reviews and makes recommendations concerning senior management succession plans, management compensation packages and performance compensation plans and annual targets. There are six members of the Environment and Human Resources Committee, and it met five times in 2003.

## **Governance Committee**

The Governance Committee assists the Board to implement effective corporate governance practices. The Committee monitors compliance with donation and sponsorship policies, reviews directors' expenses and acts as an Ethics Advisor to directors pursuant to the Directors' Code of Conduct. The Committee coordinates the annual performance evaluation of the CEO as well as regular evaluations of the Board, the Board Chair, each Committee and individual directors. There are five members of the Governance Committee, and it met five times in 2003.

## **Corporate Growth Committee**

The Corporate Growth Committee works with management to develop a growth strategy and related policies that fit with the overall strategic direction of the Corporation, reviews and recommends investments and divestitures and monitors and reports to the Board respecting the performance of investments. There are four members on the Corporate Growth Committee, and it met six times in 2003.

## **Board Orientation and Training**

All members appointed to the Board receive a Directors' Reference Manual and new directors attend an orientation session delivered by management. The orientation session addresses key industry trends, critical business risks and challenges, the structure and organizational structure and responsibilities of senior staff. CIC sponsors an ongoing education program for directors of CIC subsidiary Crown boards, which focuses on the key roles and responsibilities of board members and current governance developments.

## **Corporate Governance Practices**

The SaskTel Board has implemented a comprehensive set of governance practices and procedures. The corporate governance practices are consistent with the Toronto Stock Exchange (TSX) Corporate Governance Guidelines as they apply to a Crown corporation. SaskTel's practices are benchmarked against the Guidelines in the following Governance Scorecard.

In addition to the governance mechanisms in place at the SaskTel Holding Corporation, specific governance policies and mechanisms are in place at SaskTel's wholly owned and controlled subsidiaries.

In May 2002, Crown Investments Corporation implemented a governance policy for Crown-held subsidiaries. This policy outlines how Crown corporations, such as SaskTel, will govern their wholly owned subsidiaries. In 2003, SaskTel implemented the required processes, governance mechanisms and "best practices", as outlined in the CIC policy, to bring about full compliance by its wholly owned subsidiaries.

SaskTel has gone beyond the requirements of the CIC policy by expanding it to the subsidiaries where SaskTel has controlling interest.

SaskTel is committed to continuous refinement and improvement of its governance mechanisms by working with CIC and continuing to improve the governance processes based on current thinking and best practices.

**TSX Corporate Governance Guideline  
(Summary)**

1. The Board should explicitly assume responsibility for stewardship of the corporation, and specifically for:
  - (a) adoption of a strategic planning process
  - (b) identification of principal risks and implementation of appropriate risk management systems
  - (c) succession planning, including appointing, training and monitoring senior management
  - (d) communications policy
  - (e) integrity of internal control and management information systems
2. Majority of directors should be "unrelated" (independent of management and free from business or any other interest or relationship that could, or could be perceived to, materially interfere with the director's ability to act in the Corporation's best interest)

**SaskTel's Governance Practices**

The Board has terms of reference that describe its principal duties and responsibilities.

The Board takes an active role in SaskTel's comprehensive strategic planning process. At the annual strategic planning session, the Board reviews and provides direction to management concerning the strategic plan, business plans, budget and corporate indicators. Once these are approved, the Board is given regular updates respecting progress in achieving key indicators.

Management is responsible for identifying key risks and implementing effective risk management programs. The Audit Committee monitors and reports to the Board respecting critical risks and associated risk management activities.

The Board is responsible for appointing the CEO, in consultation with the shareholder, and for developing a CEO succession plan. The CEO is responsible for training, monitoring and developing succession plans for senior management. The Environment & Human Resources Committee monitors the senior management succession plan and makes recommendations to the Board respecting CEO succession.

SaskTel has developed a comprehensive communications strategy designed to provide timely and accurate information about Corporate activities and present a positive corporate image to internal and external stakeholders. The Governance Committee annually reviews and reports to the Board concerning the adequacy of the strategy.

The Audit Committee, in conjunction with the internal and external auditors, regularly reviews the Corporation's internal control and financial management information systems.

The majority of directors (nine out of 12) are external and unrelated. Related directors include Don Ching, President & CEO of SaskTel, and two directors, Karen Leir and Lloyd Cherniawsky, who work for SaskTel and are members of the employee bargaining agent, the Communications, Energy and Paperworkers Union of Canada.

**Does SaskTel align?**

## TSX Corporate Governance Guideline (Summary)

3. Board should disclose annually whether it has a majority of unrelated directors, and how that conclusion was reached
4. Committee should be appointed, comprised exclusively of outside, i.e., non-management, directors, the majority of whom are unrelated, responsible for recommending appointments and assessing performance of directors
5. Implement a process to assess the effectiveness of the Board, its committees and individual directors
6. Provide orientation and education programs for new directors
7. Examine and consider reducing the size of the Board to facilitate effective decision-making
8. Review directors' compensation to ensure it reflects responsibilities and risks of directors

## SaskTel's Governance Practices

Nine of the 12 directors, including the Chair, are independent of SaskTel management. None of the unrelated directors or their associates have worked for or received remuneration from the Corporation in excess of fees and compensation associated with serving on the Board or a committee.

The Governance Committee is responsible for identifying the skills sets needed on the Board, seeking and recommending candidates for Board vacancies and overseeing regular evaluations of the Board, Board Chair, each Committee and individual directors. One of five members of the Governance Committee is a related employee director.

Board, Board Chair, committee and individual director evaluations are performed regularly. An external consultant works with the Governance committee to prepare reports outlining the evaluation results, which are referred to the Board for review and approval. A summary of the Board evaluation results is submitted to CIC. The committee recommends follow-up action required as a result of recommendations made in the evaluation reports.

Management delivers an orientation session for new directors appointed to the Board. CIC delivers a comprehensive training program for directors, focusing on the skills directors need to effectively discharge their responsibilities, and trends and best practices in corporate governance

By legislation, the Board is comprised of a maximum of 12 directors. The Governance Committee assesses the size, composition and qualifications of the Board and its committees, and makes recommendations to promote timely and effective decision-making.

CIC has the legislative authority to set remuneration and expense rates for directors of its subsidiary Crown boards. The Governance Committee is responsible for reviewing and making recommendations regarding the adequacy of Board compensation.

## Does SaskTel align?



## TSX Corporate Governance Guideline (Summary)

9. Committees should be comprised of outside (i.e., non-management) directors and the majority should be unrelated

10. Assume responsibility for, or assign to a committee, the Board's approach to corporate governance issues

11. Develop position descriptions for the Board and the CEO, which define limits to management's responsibilities, and approve/develop the CEO's corporate objectives

12. Establish structures and procedures to enable the Board to function independently of management

## SaskTel's Governance Practices

All committees are comprised of outside directors, and the majority of committee members are unrelated to management.

The President & CEO does not sit on any committees. Of the two directors who are members of the employee bargaining unit, one sits on the Audit Committee and one sits on the Governance Committee. Both employee directors sit on the Environment & Human Resources Committee.

The Governance Committee oversees and reports to the Board concerning corporate governance processes, monitors compliance with existing governance policies and adopts new standards where appropriate. The Governance Committee has reviewed and approved this Statement.

The Board terms of reference set out the major responsibilities of the Board and address management duties. A final authorization policy approved by the Board further delineates decision-making authorities. A CEO Position Description sets out the CEO's primary accountabilities. The CEO is responsible to see that the Corporation meets the targets set out in the corporate indicators, and the CEO's performance is evaluated annually.

The Board's terms of reference require it to develop practices to enable it to function independently of management. Such practices include:

- (a) designation of an unrelated, outside director as Chair of the Board
- (b) clearly delineating the division of responsibilities between Board and management
- (c) establishing a process for the Board/directors to access external advice
- (d) periodically holding in-camera (without management present) sessions at Board meetings

## Does SaskTel align?



## TSX Corporate Governance Guideline (Summary)

13. The Audit Committee should:

- be comprised only of outside directors
- have a specifically defined mandate
- have direct communication channels with internal and external auditors
- oversee management reporting on internal control

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14. Implement a system to enable individual directors to engage outside advisers, at the Corporation's expense and subject to approval by an appropriate committee

## SaskTel's Governance Practices

The majority of Audit Committee members are outside directors. Of four committee members, one is a related employee director. The committee has reviewed this guideline and believes that having an employee director as a member does not give management an opportunity to bias or influence committee decisions.

The committee has a written mandate that is approved by the Board and specifically sets out the committee's responsibilities in the following broad areas: financial performance and reporting; reviewing the independence and performance of the external auditor and annually recommending their appointment or discharge and their fees; monitoring and reporting to the Board on the internal audit function, including the annual internal audit plan and reports, staffing and costs; overseeing internal controls, risk management systems and the privacy management plan; and reviewing annual depreciation rates and significant accounting policies. The committee's mandate requires the Board to consider a director's financial literacy in making appointments to the committee.

The committee's mandate explicitly affirms that the external auditor is accountable to the committee and the Board as representatives of the shareholder. The committee has direct communication channels with the internal and external auditors, and holds regular in camera sessions with the auditors in the absence of each other and of management.

In conjunction with the internal and external auditors, the committee is responsible for monitoring and reporting to the Board on the adequacy of the Corporation's internal control systems.

The Board and each Committee can access external advisers where necessary to assist in the proper discharge of their functions, duties and responsibilities. In the case of a Committee, such access is subject to the approval of the Board.

## Does SaskTel align?



**Main Office**

2121 Saskatchewan Drive  
Regina, SK S4P 3Y2  
1-800-727-5835  
[www.sasktel.com](http://www.sasktel.com)

**SaskTel International Offices**

Head Office

3rd Floor, 2121 Saskatchewan Drive  
Regina, SK S4P 3Y2  
1-800-667-5801 / 306-777-4509 • Fax: 306-359-7475  
[www.sasktel-international.com](http://www.sasktel-international.com)

Tanzanian Office

Plot 235, Block 41  
Ali Hassan Mwinyi Road  
Morocco  
Dar es Salaam, Tanzania  
255-22-266-7698 • Fax: 255-22-266-7841  
e-mail: [dave.gower@cats-net.com](mailto:dave.gower@cats-net.com)

**District Offices**

Moose Jaw

83 Ominica Street West  
Moose Jaw, SK S6H 1W8  
306-693-8161

North Battleford

1201 – 100th Street  
North Battleford, SK S9A 3Z9  
306-446-5302

Prince Albert

47 – 12th Street East  
Prince Albert, SK S6V 1B3  
306-953-6758

Saskatoon

Suite 500 • 410 – 22nd Street East  
Saskatoon, SK S7K 1W8  
306-931-5930

Swift Current

1831 North Service Road West  
Swift Current, SK S9H 3T2  
306-778-9655

Weyburn

314 Coteau Avenue  
Weyburn, SK S4H 0G6  
306-848-2644

Yorkton

210 York Road West  
Yorkton, SK S3N 3N4  
306-786-3690

**SaskTel Mobility**

2550 Sandra Schmirler Way  
Regina, SK S4P 3Y2  
1-800-667-6840  
[www.sasktelmobility.com](http://www.sasktelmobility.com)

**SaskTel SecurTek**

210 York Road West  
Yorkton, SK S3N 3N4  
1-877-777-7590  
[www.securtek.net](http://www.securtek.net)

**DirectWest Publishing**

800 – 1900 Albert Street  
Regina, SK S4P 4K8  
1-800-667-8201  
[www.directwest.com](http://www.directwest.com)

**Navigata**

Suite 121 – 949 West 3rd Street  
North Vancouver, BC V7P 3P7  
1-877-477-5266  
[www.navigata.ca](http://www.navigata.ca)

## **Vision**

*SaskTel is a highly innovative and competitive communications solutions provider for our Customers worldwide, delivering sound financial returns and public policy benefits to the people of Saskatchewan.*

Our focus is our customer. Our strength is our people.

## **Values**

At SaskTel we value:

- Honesty, Integrity, and Mutual Respect
- Open Communication
- Teamwork
- Excellence

### **Honesty, Integrity and Mutual Respect**

Honesty, integrity and mutual respect will be at the base of all our behaviour. These qualities will be inherent in everything we do and say.

## **Open Communication**

Open communication with each other will create an atmosphere of trust and common purpose. Our values will be understood and practised by all of our employees and will be demonstrated to all stakeholders in everything we do.

## **Teamwork**

Working as a team, we achieve our personal and corporate objectives and take pride in our success.

## **Excellence**

We believe SaskTel will achieve ongoing success through:

- Excellence in serving our customers by providing them with value through choice, quality, and service.
- Excellence in enabling every person at SaskTel to live our values.
- Excellence in providing innovative products, services, and processes that support our customer service.
- Excellence in working as a single team in the eyes of our customers.





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